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Supreme Court, U. S.
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IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1972

No. 72-1401

BALAX, INC. and JOHN M. VAN VLEET
Petitioners

v.

THE BENDIX CORPORATION
and SELLEW CORPORATION
Respondents

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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The petitioners, Balax, Inc. and John M. Van Vleet, respectfully pray that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Seventh Circuit reversing the decision of the United States District Court for the Eastern District of Wisconsin.

OPINIONS BELOW

The judgment and opinion of the Seventh Circuit Court of Appeals, review of which is sought, is officially reported at 471 F. 2d 149 (7th Cir. 1972), and is reprinted here as Appendix A together with the Order of January 16, 1973, by the Seventh Circuit Court of Appeals denying rehearing. The decision of the United

States District Court for the Eastern District of Wisconsin dated January 8, 1971, reversed by that judgment and decision, is officially reported at 321 F. Supp. 1095 (E.D. Wis. 1971), and is reprinted here together with the unreported findings of Fact and Conclusions of Law filed on February 10, 1971, as Appendix B. The first decision in this case by the Court of Appeals which remanded it to the District Court for reconsideration was entered on January 30, 1970, and is officially reported at 421 F. 2d 809 (7th Cir. 1970), cert. den. 399 U.S. 911 (1970) and reprinted here in Appendix C. The first decision and opinion of the District Court in this case is officially reported at 291 F. Supp. 328 (E.D. Wis. 1968) and is reprinted here as Appendix D.

JURISDICTION

This action was initiated by respondents' Complaint alleging infringement of three United States patents covering swaging taps, and two counts of unfair competition, giving rise to Federal jurisdiction under 28 USC 1338 and 1332. By their Amended Answers and Counterclaims petitioners asserted among other defenses violation of the antitrust laws. Federal jurisdiction of this antitrust counterclaim exists under 28 USC 1337.

Respondents' swaging tap patents have been held invalid and their other claims dismissed by a judgment that is now final, 421 F. 2d 809 (9th Cir. 1970), cert. denied, 399 U.S. 911. Also, all of petitioners' counterclaims have been finally dismissed, except the declaratory judgment of invalidity of respondents' patents, and the antitrust claim presented here, i.e., particularly violation of Section 1 and Section 2 of the Sherman Act and Section 4 of the Clayton Act. Hence this Court's jurisdic-

tion invoked by this Petition for Certiorari is founded upon 28 USC 2101(c).

QUESTIONS PRESENTED

1. Do the rights to contract under state laws and to license and bring suit for patent infringement under the patent laws shield from the thrust of the anti-trust laws industry regimenting activities which include:

a) contracts with certain competing, but non-producing manufacturers, requiring them to purchase all their requirements of the product only from the patent owner or his producing licensees and, as part of the purchase contract, to acknowledge or agree never to contest the validity of the seller's patents;

b) licenses to other competing manufacturers who acknowledge or agree never to contest the validity of the patents;

c) refusal to license and prosecution of a suit for patent infringement to eliminate the sole remaining effective competing manufacturer of the product as part of an illegal combination.

d) settlement of infringement suits against other competing manufacturers by consent decrees wherein the validity of the patents are acknowledged and by licenses which include acknowledgement of or agreement never to contest the validity of the patents.

2. Does the Court of Appeals' comparison of Bendix-Besly's[1] actual sales with a nonexistent "potential" market that is three times as large as the actual market support the conclusion that Bendix-Besly lacked sufficient control over "the part of trade or commerce among the several

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[1] Bendix Corporation is the successor in interest of Besly-Welles, the original patent owner, and is sometimes referred to as Bendix and sometimes as Bendix-Besly.

states" to "monopolize or attempt to monopolize or combine or conspire * * * to monopolize" it in violation of Section 2 of the Sherman Act?

3. In view of the facts that Bendix-Besly (a) held a presumptive monopoly covering the entire swaging tap market, (b) had entered into contracts binding enough of its competitors never to challenge that monopoly so that Bendix-Besly controlled access to 77% to 91% of the market, and (c) refused to license Balax, is the unchallenged and uncontradicted testimony of the president, the vice president, and the sales manager of Balax that Balax's sales were only 50% to 60% of what those sales would have been but for Bendix-Besly's violations sufficient evidence of injury under *Zenith Radio Corp. v. Hazeltine Research, Inc.* (1969) 395 U.S. 100 to satisfy the injury requirement of Section 4 of the Clayton Act to create a private cause of action for antitrust violations?

STATUTES INVOLVED

"Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: * * *. July 2, 1890, c. 647, §1, 26 Stat. 209; August 17, 1937, c. 690, Title VIII, 50 Stat. 693 July 7, 1955, c. 281, 69 Stat. 282." (15 USCA §1)

"Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations shall be guilty of a misdemeanor, * * *. July 2, 1890, c. 647, §2, 26 Stat. 209; July 7, 1955, c. 281, 69 Stat. 282." (15 USCA §2)

"Any person who shall be injured in his business or property by reason of anything forbidden in the anti-trust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained and the cost of suit, including a reasonable attorney's fee. October 15, 1914, c. 323, §4, 38 Stat. 731." (15 USCA §15)

CONCISE STATEMENT OF THE CASE

This suit was initiated by a complaint filed on June 17, 1964 (A. 21)[2] by the respondents charging the petitioners, Balax, Inc. and John M. Van Vleet (hereafter "Balax") with infringement of three of respondents' swaging tap[3] patents together with alleged acts of unfair competition. Upon discovering that respondents had licensed manufacturers of 75% of the cutting taps sold and had secured requirements purchase agreements from four other major tap manufacturers, all of which agreements were conditioned on covenants never to challenge the validity of respondents' patents, petitioners filed an amended An-

[2]The letter "A" refers to the printed appendix in the court below.

[3]Prior to 1950, all interior screw threads on the insides of holes were formed by cutting taps, which are long cylindrical steel tools with helical threads ground on their exterior surfaces and deep axial flutes interrupting the threads to create cutting edges and channels through which chips cut from the work piece are expelled. Swaging taps, all of which were covered by one or more of the Bendix-Besly patents, have no flutes and form threads, instead, by deforming and displacing the material of the work piece when turned into the hole. Swaging taps are not used in the more brittle materials, such as cast iron, most carbon steels and the like, which constitute about half of the demand for taps. Swaging taps are much more economical and have a much longer life than cutting taps. (App. C, p. 51, 421 F. 2d 809, 811) Swaging taps and cutting taps cannot be used on the same work piece because swaging taps require a larger hole than cutting taps can work in.

swer and Counterclaim on February 14, 1966 (A. 45) charging, *inter alia,* that Bendix violated §§1 and 2 of the Sherman Act and §4 of the Clayton Act. Petitioners founded this counterclaim upon those agreements together with correspondence between respondents and their competitors, respondents' refusal to license petitioners (although respondents did offer a license after this Amended Counterclaim was filed) and communications with petitioners and testimony of respondents' executives.

Each of the three Bendix patents which Balax was charged to infringe was held to be invalid. Two were held to be invalid in the District Court because the claimed inventions had been in public use by Bendix more than a year before the respective applications for patent (A. 36, App. D). The third patent was held to be valid and infringed by the District Court (App. D) but found by the Court of Appeals for the Seventh Circuit (App. C) to be completely anticipated by a 1939 German patent.

The Court of Appeals also affirmed the trial court's dismissal of the Bendix unfair competition counts but reversed the dismissal of the anti-trust counterclaim of Balax alleging violation of sections 1 and 2 of the Sherman Act and Section 4 of the Clayton Act. As to the latter, the Court of Appeals stated:

> "* * *that part of the judgment dismissing defendants' antitrust counterclaim is vacated and set aside and this cause is ordered remanded to the district court for a reconsideration of such counterclaim * * *." (App. C, p. 73, 421 F. 2d at 821)

Upon the request of Bendix (A. 155), the District Court allowed the record to be reopened and supplemented by evidence not available at the original trial in 1968 and by rebuttal evidence of Balax (A. 157). Ben-

dix objected to precluding evidence that was available at the 1968 trial, arguing that the 1969 decision in *Lear v. Adkins,* 395 U.S. 653 (1969), had so changed the law as to warrant a retrial. The District Court ruled:

> "Bendix Corporation has not persuaded me that a valid reason exists for so broadening the prospective hearing.
>
> "Although the court of appeals discussed the impact of *Lear v. Adkins,* 395 U.S. 653 (1969), it is my belief that Lear does not justify the broadened hearing sought by Bendix Corporation.
>
> "Lear relieved a licensee from any estoppel which barred said licensee from challenging the licensors' patent. In the case at bar, however, Balax, Inc. does not rely upon the protection of the *Lear* decision for the simple reason that it has never been a licensee." (A. 163-164)

Accordingly, at a hearing on November 9 and 10, 1970, limited to the question of liability by consent of the parties, evidence not available at the 1968 trial was entered of record. On the thus augmented record, the District Court sustained the anti-trust counterclaim of Balax (App. B). An interlocutory appeal pursuant to the provisions of 28 U.S.C. 1292(b) was taken by Bendix from the District Court's decision on anti-trust liability.

The decision of the Court of Appeals, review of which is sought here, reversed the District Court (App. A, 471 F. 2d 151). A basis for the reversal was "that *Lear* should not be applied retroactively to this case in its damage aspects" (App. A, p. 15; 471 F. 2d at 157-8). This, despite the fact that petitioners have never relied upon *Lear* and *Lear* is nowhere mentioned in either the decision or the Findings of Fact and Conclusions of Law of the District Court. Nevertheless, the Court of Ap-

peals found that the District Court "apparently assumed that *Lear* was relevant" (App. A, p. 10; 471 F. 2d 155).

The Court of Appeals also found, contrary to the findings of the District Court, that Bendix lacked sufficient market control to violate Section 2 of the Sherman Act and that petitioners failed to prove that they had been "injured" as required by Section 4 of the Clayton Act.

REASONS FOR GRANTING THE WRIT

A. The decision of the Seventh Circuit Court of Appeals is predicated upon the erroneous premise that covenants not to contest the validity of patents were, prior to *Lear*, immunized from the anti-trust laws regardless of the purpose for such covenants.

To arrive at the conclusion reached below, it is necessary to consider that prior to *Lear* the right to extract covenants not to contest the validity of patents was unlimited. Indeed, in the factual context of this case, it is necessary to consider that right as applicable not only to patent licenses but also to mere contracts relating to the purchase of patented products.

The employment by Bendix of this right to regiment the industry and to exclude the competition of respondent Balax is apparent from the fact findings of the District Court (App. B).

By June of 1964, when this suit was commenced, Bendix had licensed five of its competitors to manufacture swaging taps under the Bendix patents; each agreeing in its license not to contest the validity of the licensed patents during the term of the license "and thereafter" (Finding 12(b), App. B, p. 40).

By that date, Bendix also had written agreements with five additional competitors. Under these agreements, these competitors agreed to buy all their requirements for swaging taps only from Bendix and its licensees and, for an unlimited time, not to contest the validity of the Bendix patents (Finding 12(b), App. B, pp. 40, 43). Four of the five were also granted options to secure patent licenses — and agreed never to contest the validity of the Bendix patents during the life of the agreements and even after termination of the agreements (Finding 12(b)). That such covenants did not necessarily depend upon the grant of any patent rights is apparent from the extraction of a similar covenant from a mere jobber which had purchased swaging taps from Bendix (Ex. A, I. 106).

At the hearing on reconsideration of the anti-trust claim, it was determined that during and subsequent to the original trial, Bendix had licensed and was selling swaging taps to all its remaining competitors except respondent Balax and one other whose sales were found to be "not significant in amount". (App. B, pp. 41-42)

By extracting covenants never to challenge the validity of the Bendix patents from licensees and from purchasers all of whom are tap manufacturers, Bendix effectively silenced all parties who would have had the motivation and the means to challenge the validity of Bendix's patents. That Bendix had possession of the evidence of the invalidity of its patents when it secured such agreements and at least one legal opinion of their invalidity, adds proof that the dominant purpose of these agreements was to maintain control of the swaging tap market by excluding undesired competitors. The success of the scheme is apparent from the fact that Bendix and its licensees sold between 77% and 91% of all of the swaging taps sold in the United States prior to 1970, the remainder being sold by Balax. (App. A, p. 25; 471 F. 2d at 163)

As Bendix-Besly held out to one prospective licensee in 1958:

> "As I pointed out to you, I hope not only for the sake of Besly but for the sake of competitors whom we know and respect that we have a valid patent, one that will stand up to any legal test. If this proves to be the case, we can hope that all those who operate under the license will enjoy increased profits through promotion of taps made to this design." (Ex. A, p. 272)[4]

To another prospective licensee, Pratt & Whitney, Bendix-Besly in 1959 threatened that "* * * a legal entanglement is highly expensive and drawn out, * * *" and volunteered advice as to how any future accusations of collusion might be dealt with:

> "Regarding accusations of collusion, if our own company were put in this position I most certainly think that we would merely ask a competitor to take all the evidence in our possession and let him foot the bill for the legal proceeding. In this type of a situation we would merely point out the fact that we did not feel that the evidence we had was strong enough to support our position in dealing with legal frailties, and we simply signed a license agreement rather than engage in a legal controversy in which the results were uncertain at best. I feel that thinking along a line such as this would substantiate any agreement that the two firms might enter into." (Ex. A, p. 274)

Pratt & Whitney subsequently signed the requirement purchase agreement covenanting never to challenge the validity of Bendix's patents notwithstanding the advice of its patent attorney that "* * * it is his considered opinion that your [Bendix] reissue patent * * *" is invalid, citing the German petty patent no. 1,455,626 registered

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[4] "Ex. A" refers to Exhibits appendix in the court below.

on January 9, 1939 (Ex. A, II. 278) on the basis of which Bendix's reissue patent was ultimately declared invalid.

Bendix also sought to extend the term of its monopoly via the patent license route. It sought a license under Balax's patent for an improved thread configuration on a tap so that Bendix "* * * could extend the life of the X-Press tap in terms of our licensees already established." (A. 303) It did not desire any competition from Balax, however. Balax was offered a license under the Bendix patents, but only on the condition that the Balax tap would be sold "* * * at the higher price which their superior performance justified and [Balax] would not offer conventional X-Press [Bendix-Besly] tap." (Ex. A, I. 181) (A. 309) Bendix "* * * of course, * * * did not want" Balax to get into the tap business. (A. 304-305) And, Bendix had to obtain the permission of its other licensees to make its arrogant offer to Balax because "* * * we [Bendix] had to explain to them that Van Vleet's [Balax's] operation was a unique license, that we did not regard this as a device for putting new competition into business on the X-Press [Bendix] tap; that the reason why we were granting him the license was so that he could go ahead and manufacture and sell taps under the Besly [Bendix] patent and, therefore, prove the value of his machine." (A. 310)

When Balax refused the restricted license and began marketing its swaging taps, Bendix-Besly withdrew its offer and "initiated this suit against Balax because the "* * * 'Balax' Tap, made in a small shop near Milwaukee, poses more of a competitive threat in the market * * *" (App. B, p. 45).

The Court of Appeals found that this case "* * * involves primarily the scope of the retroactive application

of *Lear, Inc. v. Adkins,* 395 U.S. 653 (1969)." (App. A, p. 1, 471 F. 2d at 151) This conclusion was based upon the Court's declarations that:

(1) "In 1950 the Supreme Court held that 'the general rule' was that a patent licensee operating under a license agreement was estopped to deny the validity of his licensors patent in a suit for royalties. *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.,* 339 U.S. 827, 836." (App. A, p. 10, 471 F. 2d at 155)

(2) "All of the licensee restrictions imposed by the plaintiff (Bendix) occurred subsequent to 1950." *Ibid.*

(3) "The plaintiff commenced its infringement suit in 1964." *Ibid.*

(4) "The District Court's judgment was rendered in 1968." *Ibid.*

(5) "On June 16, 1969 the Supreme Court decided *Lear, Inc. v. Adkins,* 395 U.S. 653 holding that a licensee is not estopped to enterpose the validity of the licensed patent as a defense to an action by the patentee-licensor or to enforce the license agreement. The Court expressly overruled its 1950 holding to contrary." *Ibid.*

(6) "The District Courts apparently assumed that *Lear* was relevant and that the license restrictions constituted *per se* antitrust violations in light of *Lear.*" *Ibid.*

After an analysis of the criteria for retroactive application of precedents, the Court of Appeals held, "We conclude, therefore, that *Lear* should not be applied retroactively to this case in its damage aspects. Consequently, the portion of plaintiff's [Bendix's] license agreements providing that the licensee 'will not contest the validity of any patent which is now a part of this agree-

ment during the life of this agreement' did not constitute a misuse of the patent." (App. A, p. 15, 471 F. 2d at 158)

However, the decision of this court controlling the facts of this case was not *Automatic Radio Co. v. Hazeltine, supra,* but rather the decision in *Pope Manufacturing Company v. Gormully,* 144 U.S. 224 (1892). The *Automatic Radio* case, like the *Lear* decision which overruled it, dealt with an estoppel implied by state law. By contrast, the *Pope v. Gormully* case like the present case deals with expressed covenants prohibiting licensees from challenging the validity of patents, as to which the *Lear* decision changed nothing, as this Court recently held in *United States v. Glaxo Group Limited et al* (1973), — U.S. —, 35 L. Ed. 2d 104, at 110:

> " * * * in the tradition of *Pope Mfg. Co. v. Gormully,* 144 U.S. 224, 234, 36 L. Ed. 414, 12 S. Ct. 632 (1892): 'It is as important to the public that competition should not be repressed by worthless patents, or that the patentee of a really valuable invention should be protected in his monopoly . . .,' *a view most recently echoed* in *Lear v. Adkins,* 395 U.S. 653, 670, 23 L. Ed. 2d 610, 895 S. Ct. 1902 (1969)." [Italics added]

This Court held in *Pope v. Gormully, supra,* that a covenant not to challenge the validity of the patent is a creature of contract law, and not a part of the monopoly granted under the patent laws, and hence a convenant not to challenge the validity of licensed patents is not immune from the laws voiding illegal agreements and agreements against public policy or in restraint of trade. 144 U.S. at 223. The *Automatic Radio Company* case did not create such immunization, nor did the *Lear* decision change that law. Ironically, the effect of the effort

of the Court of Appeals to prevent retroactive application of *Lear* was to apply *Lear* retroactively to legitimize a contract and combination that was illegal before *Lear*.

In *United States v. Singer Manufacturing Company*, 374 U.S. 174 (1963), Singer and two European manufacturers of sewing machines entered into a series of cross licenses of patents covering cam operated zigzag mechanisms for sewing machines, for the dominant purpose of destroying the competition of Japanese sales of the infringing machines in the United States. This Court, citing *United States v. Masonite*, 316 U.S. 265 (1942), held, "* * * it 'is equally well settled that the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly." 374 U.S. at 196.

The *Singer* case, like the present case, involved a series of license agreements that appeared individually to be innocuous, but *Singer* and its conspirators used these agreements to combine their patents in a way that gave them more market leverage than the individual patents alone could have provided to effectuate an illegal dominant purpose. In *Singer* the dominant purpose was to eliminate Japanese competition. In the present case the dominant purpose was to eliminate competition from all but those "competitors whom we know and respect" (Ex. A, I. 272). In *Singer* they combined valid patents. In this case, Bendix-Besly combined with its friendly competitors to confer patentability and hence monopoly on an unpatentable product. Such contracts, combinations and conspiracies are not now and never have been beyond the operation of the general laws, including the antitrust laws. The decision of the Court of Appeals, applying *Lear* retroactively to legitimize such contracts, com-

binations and conspiracies is no less erroneous than a retroactive application of *Lear* to create an antitrust violation.

While, prior to *Lear,* the right to license under the patent laws might have afforded basis for the legitimate inclusion in patent licenses of covenants not to contest the validity of patents, no such justification existed for such covenants in ordinary contracts of purchase even of patented products.

Requirements contracts containing the covenant were entered into by Bendix with four major competing tap manufacturers. (A. 104, 107, 109, 119). A fifth such covenant was extracted from a mere jobber as consideration for the sale to him of Bendix swaging taps (A. 106).

The economic leverage of these agreements pivots on the industry wide practice of using only exclusive distributors; that is, distributors that sell only the products of a single manufacturer. (A. 567) The crucial importance of these agreements to Bendix emerges from the fact that when these manufacturers were induced to sign these agreements, Bendix knew of its own prior use of two of its alleged inventions and the prior art upon which its third patent was finally declared invalid in this action — and had received the opinion of at least one patent attorney that its patents were in fact invalid. (Ex. A. 273)

After they entered into these agreements, the competing manufacturers had no choice but to purchase their entire requirements solely from Bendix or its licensees. Should they attempt to purchase taps from another source or to enter upon the manufacture of them for sale to their distributor without paying tribute to Bendix-Besly, they faced, in addition to a suit on the contract itself, the threat of an infringement suit which they could not win

and Bendix could not lose. They had no infringement defense; all known swaging taps infringed the Bendix patents. And, by the contracts, they had bargained away the right to contest the validity of the Bendix *de facto* invalid patents.

Other swaging tap manufacturers, such as Balax, could not sell swaging taps directly to the distributors of those competitors since all of the distributors are bound to handle only one manufacturer's products. These manufacturers who entered into requirements purchase agreements together with Bendix and its licensees sell in excess of 80% of all of the taps sold and hence their distributors represent the only access to over 80% of the market and these are effectively foreclosed to any and all manufacturers of swaging taps except Bendix-Besly and its licensees.

While the Court of Appeals held that these requirements purchase contracts and the jobber contract were "purchase licenses", and therefore the covenants were immune from the antitrust laws prior to this Court's decision in *Lear v. Adkins, supra,* the purchase agreements alone do not grant any rights to or under the Bendix patents.

Involved here are simple buy and sell contracts which the seller conditioned upon the buyers' agreements to waive the statutory defenses granted to the buyer in the event that the seller should charge the buyer with infringement of the seller's patents; and nothing decided in *Lear v. Adkins, supra,* could affect these purchase agreements.

The precedents governing these requirements purchase agreements include neither the *Automatic Radio* case, nor the *Lear* case, but instead are found in this Court's

decisions in *United States v. Masonite Corporation, et al.*, 316 U.S. 265 (1942); *Northern Pacific Railway Co., et al. v. United States*, 356 U.S. 1 (1958); *Klor's Inc. v. Broadway-Hale Stores, Inc., et al.*, 359 U.S. 207 (1959); *Fortner Enterprises Inc. v. United States Steel Corp., et al.*, 394 U.S. 495 (1969).

In the *Masonite* case, *supra*, Masonite held patents on high density hardboard made from wood chips (316 U.S. at 268) and Masonite entered into agency agreements with competing manufacturers of building materials (316 U.S. at 269-270) making those competitors *del credere* factors of Masonite to sell Masonite's patented hardboard at prices dictated by Masonite (316 U.S. at 271-272). Masonite's competitors, similarly to the Bendix-Besly's competitors, expressly acknowledged the validity of Masonite's patents (316 U.S. at 271) for the term of the agreement which was the life of the last patent to issue (316 U.S. at 273). Masonite, like Bendix-Besly, gave its contracting competitors an option to take a license (316 U.S. at 272). In both cases, the competitors all knew that the others had signed similar agreements. The *Masonite* case differs from this case in that (1) the dominant purpose of the Masonite agreements was to fix prices,[5] whereas the dominant purpose of the Bendix-Besly purchase agreements was to exclude competition, and (2) Masonite's competitors became *del credere* factors and Bendix-Besly's were simple requirements purchasers. This Court held that Masonite violated Section 1 of the Sherman Act, on the basis that:

> "The owner of a patent cannot extend his statutory grant by contract or agreement. A patent affords no

[5] Bendix-Besly and its licensees and purchasing competitors maintained price uniformity (App. B, pp. 33-34, 45, 471 F. 2d 160) but the Court of Appeals held that Balax was not hurt by the practice, (*Ibid.*).

> immunity for a monopoly not fairly or plainly within the grant. * * * '[public policy] equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which is contrary to public policy to grant.' Beyond the limited monopoly which is granted, the arrangements by which the patent is utilized are subject to the general law." 316 U.S. at 277.
>
> "But where he [a patentee] utilizes the sales organization of another business — a business with which he has no intimate relationship — quite different problems are posed since such a regimentation of a marketing system is peculiarly susceptible to the restraints of trade which the Sherman Act condemns." 316 U.S. at 279.

As Justice Douglas observed in his dissenting opinion in *Automatic Radio Co., Inc. v. Hazeltine Research, Inc.*, 339 U.S. 827 at 839 (1950), "But what worse enlargement of monopoly is there than the attachment of a patent to an unpatentable article? When we consider the constitutional standard, what greater public harm than that is there in the patent system?"

Just as Bendix here conditioned the sale of its swaging taps upon the agreement of the purchasers not to challenge the presumptive monopolies Bendix had obtained covering swaging taps, so in *Northern Pacific Railway Co. et al. v. United States*, 356 U.S. 1 (1957), the Northern Pacific Railroad Company conditioned the sale or lease of its land upon the covenant by the grantee or leasee to ship over Northern Pacific Railroad Company all commodities produced or manufactured on the land, provided the rates or services of the Northern Pacific Railroad were equal to those competing carriers. There this Court defined a tying arrangement:

> " * * * as an agreement by a party to sell one product but only on the condition that the buyer also pur-

> chases a different (or tied) product, or at least agrees that he will not purchase that product from another supplier. * * * Indeed 'tying agreements serve hardly any purpose beyond the suppression of competition.' * * * They are unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and 'not insubstantial' amount of interstate commerce is affected." 356 U.S. at 5-6.

Here a more subtle, but nevertheless effective tie-in arrangement exists in the form of the requirements purchase contracts. The purchasers under those contracts were of necessity agreeing not to purchase swaging taps from other sources during the life of Bendix-Besly's patents as a condition to the right to purchase such taps from Bendix-Besly. The contracts precluded them from purchases from any other source even had they been willing to face expensive patent litigation by so doing. As the record discloses, all known swaging taps on the market infringe one or more of the Bendix-Besly patents. Thus, when the purchasers bargained away their defense of invalidity of Bendix-Besly's patents, they bargained away their only defense to an injunction against selling taps from any other source during the life of Bendix-Besly's patents.

Since this violation is based upon Section 1 of the Sherman Act, monopoly power in Bendix-Besly is not a necessary element. Regardless of the market definition adopted, Bendix-Besly holds sufficient economic power in its patents that cover all known swaging taps, for as this Court held in *Fortner Enterprises Inc. v. United States Steel Corp. et al.,* 394 U.S. 495 at 502-503 (1969):

> "The standard of 'sufficient economic power' does not, as the District Court held, require that the

> defendant have a monopoly or even a dominant position throughout the market for the tying product. Our tie-in cases have made unmistakably clear that the economic power over the tying product can be sufficient even though the power falls far short of dominance and even though the power exists only with respect to some of the buyers in the market."

It is true that Balax, a small infant corporation with only one product, swaging taps, is insignificant in the cutting tool industry and that the elimination of Balax would not have affected the economy, but those facts do not deprive Balax of the protection of the antitrust laws, for as this Court held in *Klor's, Inc. v. Broadway-Hale Stores, Inc., et al.*, 359 U.S. 207 at 213-214 (1959):

> "It [the boycott] interferes with the natural flow of interstate commerce. It clearly has, by its 'nature' and 'character,' a 'monopolistic tendency.' As such it is not to be tolerated merely because the victim is just one merchant whose business is so small that his destruction makes little difference to the economy. Monopoly can as surely thrive by the elimination of such small businessmen, one at a time, as it can by driving them out in large groups. In recognition of this fact the Sherman Act has consistently been read to forbid all contracts and combinations 'which' tend to create a monopoly,' whether 'the tendency is a creeping one' or 'one that proceeds at full gallop.' "

B. The definition of " * * * any part of the trade or commerce among the several States, * * * in §2 of the Sherman Act to include estimated sales that may be made in the future creates a loophole in Section 2 through which monopolists will escape the Sherman Act for want of sufficient market dominence.

In determining that " * * * the question of potential monopoly power [by Bendix] is exceedingly delicately

balanced on several fine lines * * *", the Court of Appeals adopted the hypothesis "* * * that 50% of the $60 million per year tap market is *potentially* interchangeable between cutting and swaging taps and that *after* an actual interchange of the $30 million market would decrease to $6 million by virtue of the relative inexpensiveness of the total volume of needed swaging taps, * * *" and concluded that "* * * the combined market position of plaintiff [Bendix] and its licensee is 31.2%." [emphasis added] (App. A, pp. 22, 23, 471 F. 2d at 161) However, the Court of Appeals also found that in actual sales, in 1970 Bendix and its licensees had 74% of the market, in 1969 77%, in 1968 80%, in 1967 83%, in 1966 85%, in 1965 89% and 91% in 1964, the year this action was filed. (App. A, p. 25, 471 F. 2d at 163)

Thus in determining market control under §2 of the Sherman Act in this case, the Court of Appeals compared actual sales with a potential market that it estimated would exist at some undetermined time in the future—approximately three times as large as the actual market measured in sales actually made. Further, following the potential market theory of the Court of Appeals, Bendix-Besly and its licensees would have had but one-third of the "potential" market had they captured 100% of the actual swaging taps sales by driving Balax out of the market place. (Bendix-Besly nearly achieved that 100%, for Balax was the only competing manufacturer that sold any significant amount of swaging taps from the time this action was brought in June of 1964 until this Court denied Bendix-Besly's petition for certiorari in June 1970.) Hence, notwithstanding the fact that Bendix-Besly and its licensees would have been the only sellers in the market, their "potential monopoly power" would have been "exceedingly delicately balanced on several fine lines"

according to the decision below. (App. A, p. 24, 471 F. 2d at 163)

In short, any monopolist in a growing market can avoid Section 2 of the Sherman Act in the Seventh Circuit by showing the Court of Appeals that the market at some future date might be more than three times the present actual sales.

Although the Court of Appeals seemed to accept the swaging tap market as the relevant market, it also criticized the trial court's findings on that issue stating, "This market definition ignored the evidence in the record of interchangeability among swaging and cutting taps." (App. A, p. 21, 471 F. 2d at 161) The Court of Appeals also relied upon what it characterized as "the defendant's [Balax's] own admissions that swaging taps are 'reasonably interchangeable' with approximately 50% of the cutting tap market." However, there is no such evidence and certainly Balax made no such admissions. What all of the evidence proves and Balax argued is that swaging taps are "superseding" cutting taps; that is, driving cutting taps out of the market (A. 482-483, 533-535, 578-580, 665-666), in the same way that diesel-electric engines superseded steam engines on the railroads, and jet engines superseded reciprocating propeller engines in commercial planes.

Swaging taps have no more competition from cutting taps than diesel-electric and jet engines have from their outmoded predecessors. Indeed, the record shows that the sales of swaging taps were serenely unaffected when the price of cutting taps was cut in half (A. 578-580, 665-666). Hence, to the extent that the Court of Appeals was influenced by what it thought to be "interchangeability", it was misled.

The market involved here is the swaging tap market, which is a submarket of the internal threading tool market. *Brown Shoe Co., Inc. v. United States,* 370 U.S. 294 at 325 (1962); *United States v. DuPont & Co.,* 353 U.S 586 at 593-594, 77 S. Ct. 872, 1 L. Ed. 2d 1057 (1957); *United States v. Grinnell Corp.,* 384 U.S. 563, 572-573, 86 S. Ct. 1698, 16 L. Ed. 2d 778, 787-788. Moreover, with control of 77% to 91% of that submarket during the years involved, there can be little room for doubt that Bendix-Besly and its licensees had monopoly control. Cf. *United States v. Grinnell Corp., supra,* 384 U.S. at 571, 16 L. Ed. 2d at 786.

C. The decision of the Court of Appeals holding that Balax failed to prove the injury required by §4 of the Clayton Act directly conflicts with this court's decision in *Zenith Radio Corp. v. Hazeltine Research, Inc. et al,* 395 U.S. 100 (1969) and effectively denies the remedies of the antitrust laws to newly formed manufacturing businesses.

Balax, Inc. was formed by petitioner John M. Van Vleet in November of 1959 for the purpose of exploiting Mr. Van Vleet's inventions relating to an improved tap thread design and to a new tap thread grinding machine that automatically grinds threads with the corrected configuration. Balax, Inc. went into commercial production for the first time in 1962 having as its only product swaging taps and employing the Van Vleet inventions. The tap with the improved thread may be described as an axially balanced or "Balax" tap. (App. B, p. 36, Ex. A, I. 144)

As soon as Balax, Inc. began marketing its taps, Bendix-Besly responded by charging Balax with infringement of its patents and caused Balax's supplier of plastic pack-

ages for its taps to breach its contract with Balax by threatening the supplier. In the two-year interval between the infringement charge and the beginning of this suit Bendix-Besly signed up another major tap manufacturer, Jarvis (Ex. A 32-42) as a licensee and, immediately before filing this action, finally succeeded in obtaining a covenant never to challenge the validity of Bendix-Besly patents from Pratt & Whitney (Ex. A, II. 199-200) — which possessed evidence of the invalidity of Bendix-Besly's patents and an opinion of its attorney that the Bendix-Besly patents were invalid. (Ex. A, I. 273)

The filing of this action was well known in the market place where potential customers for resale and users could contemplate potential liability to Bendix-Besly should Bendix prevail in this action. (A. 537-538) Balax, Inc. survived and continued to market its swaging tap with increasing sales each year, notwithstanding all of Bendix-Besly's efforts to suppress Balax's business, including the massive burden on the limited assets of the infant Balax as well as the diversion of a substantial portion of its management and engineering energies required for the defense of the patent action (A. 514-516, 525-527). Indeed, Balax, Inc. was the only significant competition to Bendix-Besly and its licensees in the swaging tap market. Balax accomplished this feat by selling its swaging taps to five manufacturers of cutting taps who resold the swaging taps through their distributors along with their cutting taps (A. 482), and by obtaining thirty-five distributors (A. 670) — compared to Bendix-Besly's five hundred (A. 573) — who sold a small portion of Balax's production directly to users.

The activities and contracts of Bendix-Besly closed all other avenues of growth to Balax. At the trial in Jan-

uary of 1968 the president of Balax, John Van Vleet, testified that Balax midwest sales were approximately 60% of what they would have been but for Bendix's activities in attempting to enforce patents against Balax and its other harassments of Balax (A. 511). Also at the trial in 1968, Balax's sales manager testified that in his judgment sales by Balax were at the national level only 50% of what they would have been but for those activities of Bendix. (A. 537) Balax's vice-president also testified that the diversion of assets and executive energies occasioned by this law suit prevented Balax from broadening its product line and from acquiring the necessary capital equipment to operate as efficiently as it could operate. (A. 525-528) At the hearing upon reconsideration on November 9th and 10th, 1970, as to injury to counterclaim plaintiff, the vice-president of Balax testified further as to the limitations imposed upon efficiency and productivity by the inability of Balax to obtain financing which was a direct result of this action (A. 626-640, 656). The vice-president of the only financial institution that would provide any financial aid to Balax, testified that his bank could not provide a letter of credit to Balax to secure the cost bond for the first appeal in this case without the personal guarantee of stockholders and directors of Balax together with a security agreement covering all of Balax's assets and receivables. (A. 618-620) Hence Balax could not broaden its product line, to include cutting taps. Without a complete line including cutting taps, Balax could not obtain adequate distribution since tap manufacturers use exclusive distributors who handle but one manufacturer's product line and distributors want a complete line to sell (A. 537, 567). And Balax was foreclosed from selling swaging taps to the tap manufacturers who account for between

80% and 90% of the cutting taps sold in the United States. They had signed contracts containing covenants never to challenge the validity of the Bendix-Besly invalid patents relating to swaging taps.

Nevertheless, the Court of Appeals, reversing the District Court, noted that Balax's business, instead of failing, "* * * has steadily increased and would increase more if it carried cutting taps, * * *" and held "* * * that defendants [Balax and Van Vleet] did not prove any recoverable damages, and that assuming or speculating that damages were incurred by defendants, they failed to prove that such damages were the proximate result of plaintiff's actions." Let it be emphasized here that the issue of the quantum of damages has not yet been tried, it having been set aside by stipulation for separate trial, and that this Bendix appeal was taken only under 28 USC 1292(b) from the District Court's finding of liability in Bendix-Besly.

The foregoing facts and evidence are governed by this Court's decision in *Zenith Radio Corp. v. Hazeltine Research, Inc., et al.*, 395 U.S. 100 (1969). Hazeltine sued Zenith for infringement of patents in a pool, called "CRPL" controlled by Hazeltine and others. CRPL would package license its patents only to parties manufacturing in Canada, and Zenith sought to manufacture in the United States for export to Canada. Hence, Zenith was denied a license by the pool. Nevertheless Zenith attempted to export to Canada and encountered harassing and intimidating activities by CRPL culminating in Hazeltine's infringement action, for the defense of which Zenith was awarded three times its attorneys fees and costs as antitrust damages.

Zenith produced its president and one of its vice-presidents both of whom testified that but for the ac-

tivities of the pool Zenith would have had 16% of the radio and television market in Canada and instead had only 3 to 5%. Zenith also produced one of its accountants who, based upon the testimony of the president and vice-president, arithmetically calculated the dollar value of what Zenith's Canadian market could have been and hence of Zenith's dollar value loss. The testimony of Zenith's president and vice-president was premised on the fact that Zenith had 16% of the U.S. market. (395 U.S. at 116)

The evidence of the injury offered by Zenith in that case and Balax in this case is identical, except in three circumstances. First, Balax, unlike Zenith, did not have an established business when the Bendix antitrust activities began. Instead Balax from its very commercial inception, from the sale of its first products, encountered the conspiracy and combination in restraint of trade and attempts to monopolize carried out by Bendix-Besly. Therefore Balax has no bench mark of free competitive sales in any market to rely upon. Rather it is forced to base its estimates upon the distribution network it might have had, but for Bendix-Besly's activities, as compared with the success that Balax enjoyed where it was able to obtain distributors or access to distributors. Secondly, unlike in *Zenith* the Balax witnesses were not cross-examined, the Balax testimony was not rebutted and has not been challenged in any respect by Bendix-Besly in the course of this litigation. Third, Zenith placed one of its accountants on the stand to carry out the arithmetical calculation from the evidence given by its president and vice-president. Balax simply made a record of the essential facts as to Balax's actual sales together with the above mentioned percentage of the portion of the market from

which it was excluded. However the arithmetic operations used to calculate the dollar sales loss as a result of the exclusion are elementary and subject to judicial notice. Moreover, at this stage in the proceedings, the damage issue being set aside for separate trial, the precise quantum of damages is not even involved.

The only need for proving damage at this point is to prove the existence of an injury that is not *de minimus* as required by Section 4 of the Clayton Act. Balax perforce adopted a more conservative measure of damages than Zenith because Balax has not had the opportunity to compete in a free market. Hence Balax claims only those sales it has demonstrated its ability to obtain in the market restrained by Bendix and its licensees.

If Balax's evidence is imprecise, the cause of the imprecision, therefore, lies not with Balax, but with the activities of Bendix-Besly. As this Court stated in reversing the Seventh Circuit Court of Appeals in *Bigelow, et al. v. RKO Radio Pictures, Inc., et al.* (1946), 327 U.S. 251 at 265, "The most elementary conceptions of justice and public policy require that the wrongdoer shall bear the risk of the uncertainty which his own wrong has created."

In this connection the statement of the Court of Appeals that Balax's " * * * share of the swaging tap market increased at * * * the expense of Besly's * * * " (App. A, p. 25) deserves analysis. In every year, but two, for which complete annual sales figures are of record, i.e., 1957 through 1969, Bendix-Besly's sales steadily increased. (Ex. A, 120, 264, 265) The sales of the licensees fluctuated more, but also showed a steady growth curve. (A. 121, 265) Balax's sales grew at a faster rate than those of Bendix-Besly and its licensees during the same years, but Balax's total

sales were much much smaller and hence could show a greater percentage rate of growth with lesser absolute increases. Even more significant is the fact that the parties were operating in a market which had a potential of three or more times the total actual sales, and the market area that Balax was able to penetrate had not yet been exploited by Bendix-Besly. The market of significance here was that from which Balax was excluded by the predatory practices of Bendix-Besly.

Finally, the Court of Appeals found lack of causal connection between Balax's injury and Bendix-Besly's antitrust violation by dissecting and compartmentalizing Bendix-Besly's wrongful acts. First the Court of Appeals artificially bissected the terms of Bendix-Besly's covenants shielding its patents from challenge into the portions extending for lives of the contracts, which it declared to be immune from the antitrust laws, and the portions surviving termination of the contracts. (App. A, p. 15) The latter, that Court declared, could have been a misuse (App. A, p. 16, 471 F. 2d 158-159), but found no specific damage evidence causally connected only to the covenant terms that would outlive the contracts (App. A, pp. 17, 20, 471 F. 2d 159-160). This Court prohibited such techniques in *Continental Ore Co., et al v. Union Carbide & Carbon Corp., et al* (1962) 370 U.S. 690 at 698-699: "In cases such as this, plaintiffs should be given full benefit of their proof without tightly compartmentalizing the various factual components and wiping the slate clean after scrutiny of each."

The trial court found sufficient injury to Balax resulting from Bendix-Besly's anti-trust violations, including the bringing of this suit, to satisfy Section 4 of the Clayton Act. The Court of Appeals overriding judgment — "as it had to be if its no-injury rationale were to meet claims

of damage" — was that Balax would have done no more business if Bendix-Besly had not contractually imposed a patent monopoly covering the entire market upon the unpatentable swaging tap. The Court of Appeals was clearly in error. Cf. *Zenith Radio Corp. v. Hazeltine Research, Inc., et al* (1969) 395 U.S. 100 at 118.

CONCLUSION

Because the Court of Appeals has approved a unique misuse of the patent system, has created an important new precedent defining relevant market for antitrust purposes in a manner such that it can rarely be dominated, has improperly applied this Court's decision in the important *Lear* case retroactively to legitimatize previously illegal contracts and combinations, and has disobeyed this Court's instructions most recently expressed in the *Zenith* case regarding proof of injury in Section 4 of the Clayton Act, petitioners urge the Court to grant this Petition for Certiorari.

Respectfully submitted,

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APPENDIX A.

The BENDIX CORPORATION and Sellew Corporation, Plaintiffs-Appellants,

v.

BALAX, INC. and John M. Van Vleet, Defendants-Appellees.

No. 71-1483.

United States Court of Appeals,
Seventh Circuit.

Argued Sept. 12, 1972.
Nov. 29, 1972.

* * *

Before HASTINGS, Senior Circuit Judge, and CUMMINGS and SPRECHER, Circuit Judges.

SPRECHER, Circuit Judge.

This appeal involves primarily the scope of the retroactive application of Lear, Inc. v. Adkins, 395 U.S. 653, 89 S. Ct. 1886, 23 L. Ed. 2d 610 (1969).

I

This suit was commenced on June 17, 1964, seeking to enjoin, and for an accounting of profits and damages resulting from, defendants' alleged infringement of three

patents owned by the plaintiff relating to a fluteless swaging tap.[1]

Before trial, plaintiff withdrew its patent No. 2,991,491, admitting its invalidity due to plaintiff's own prior public use. The trial court held plaintiff's patent Re. 24,572 valid and infringed and patent No. 3,050,755 infringed but invalid for prior public use by plaintiff. It dismissed defendant's antitrust counterclaim. Besly-Welles Corp. v. Balax, Inc., 291 F. Supp. 328 (E.D. Wis. 1968).

Upon appeal, this Court affirmed the judgment of invalidity of No. 3,050,755 and reversed the judgment of the validity of Re. 24,572. Bendix Corp. v. Balax, Inc., 421 F. 2d 809 (7th Cir.), cert. denied, 399 U.S. 911, 90 S. Ct. 2203, 26 L. Ed. 2d 562 (1970).[2]

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[1] "A tap is a tool used to form threads on the cylindrical inner surface of a hole. A swaging tap forms threads by deforming the metal and displacing it into the form of the desired thread. A swaging tap, which forms no chips, is to be distinguished from a cutting tap which forms threads by cutting away the metal with cutting teeth. The swaging method is said to be more economical and easier to perform than the cutting method. Swaging taps have a longer life than cutting taps. They produce no metal chips. The costly and time consuming inspection and cleaning of the work after the job is completed is thus eliminated." Bendix Corp. v. Balax, Inc., 421 F. 2d 809, 811 (7th Cir.), cert. denied, 399 U.S. 911, 90 S. Ct. 2203, 26 L. Ed. 2d 562 (1970). In order to produce a cutting tap, a fluted blank is needed on which to grind the threads. The machine needed to produce the fluted blank is relatively expensive. Swaging taps have no flutes (or parallel grooves) so that fluted blanks are not needed. Thus the maker of swaging taps needs only a thread grinding machine and not an expensive flute grinding machine.

[2] Suit was originally brought by Besly-Welles Corporation, an Illinois corporation, whose name was later changed to Sellew Corporation. In 1965, Besly-Welles Corporation, a Delaware corporation, was incorporated as a wholly-owned subsidiary of the Bendix Corporation. The subject patents were transferred from the Illinois corporation to the Delaware corporation and the Bendix Corporation was substituted as a party in this case.

The Court vacated that part of the judgment dismissing defendants' antitrust counterclaim in order to consider "the relevance, if any, of *Lear*."[3]

Upon remand, the district court concluded that the defendants had established their counterclaim and were entitled to judgment. The district court considered that this court's statement that "the right to estop licensees from challenging a patent is not part of the 'limited protection' afforded by the patent monopoly," constituted the law of the case. Then, inasmuch as many of plaintiff's license agreements contained "a concession by the

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[3] This Court said at 421 F. 2d 820, 821:

"While it is true that a valid patent does afford some 'limited protection,' including 'the right to license others to manufacture the patented tap,' this is no answer to the thrust of defendants' contention that the licensor may not thereby forever preclude the licensee from challenging the validity of the patent. By requiring such a condition in the license or sales agreement, plaintiff may have placed itself in the position of unlawfully exceeding the protected area.

"Further, subsequent to the judgment of the district court under consideration here, the Supreme Court in Lear, Inc. v. Adkins, 395 U.S. 653 (June 16, 1969), at 668-671, 89 S. Ct. 1902, 23 L. Ed. 2d 610 overruled the holding of Automatic Radio Manufacturing Co., Inc. v. Hazeltine Research, Inc., 339 U.S. 827, 836, 70 S. Ct. 894, 94 L. Ed. 1312 (1950), insofar as it invoked a legally implied estoppel to deny a licensee the right to challenge the validity of his licensor's patent in a suit for the collection of royalties.

* * *

"From all this we can only conclude that the right to estop licensees from challenging a patent is not part of the 'limited protection' afforded by the patent monopoly. Furthermore, the reason is that it creates a danger of unwarranted monopolization. Such danger may be even greater here than in the usual licensee-estoppel case for the reason that in the instant case the licensor sought to create an irrevocable estoppel, not one merely extending during the life of the licenses and sales agreements.

"The parties did not address themselves to the relevance, if any, of *Lear* in the present appeal, and, of course, it could not have been considered by the district court. Under these circumstances, we feel it should be first presented to the trial court for its consideration."

contracting party either that it would not legally challenge the Besly patent or that it acknowledged the patent's validity" and inasmuch as some of those concessions were to continue "during the life of this agreement or thereafter," the district court concluded that "Besly had gained and retained control of a substantial portion of the swaging tap market." Bendix Corp. v. Balax, Inc., 321 F. Supp. 1095, 1096 (E.D. Wis. 1971).[4]

II

The basic facts may be summarized as follows: Until 1950 a cutting tap was the only tool available in the United States for internal thread forming. In 1950 at least two manufacturers began making swaging taps. In 1957 the plaintiff commenced marketing its improved swaging tap in regard to which it eventually obtained three patents.

Plaintiff's earliest swaging tap patent was issued in 1957 and reissued as Re. 24,572 on December 2, 1958. Patent No. 2,991,491 was issued on July 11, 1961. Patent No. 3,050,755 was issued on August 28, 1962.

Defendant Balax was incorporated in 1959 and defendant Van Vleet has been its president since then. From May to November 1961, Van Vleet met and communicated with representatives of plaintiff, at which time

[4] The district court said: "I find that in actual practice, Besly was able to, and did, monopolize the swaging tap market and improperly influence the pricing structure for the commodity. Besly was able to negotiate the royalty rate charged to licensees in a substantial portion of the market and was able to exert an excessive influence on pricing. Having obtained concessions as to the 'validity' of its now invalid patent, and having obtained waivers regarding judicial action, Besly was able to, and did, monopolize the swaging tap market. Besly's opportunity to monopolize was enhanced by its having commenced actions against alleged infringers or by threatening to so do." *Id.*

Van Vleet disclosed that he had been developing what he considered a superior type of swaging tap. The discussions included the possibility of a cross-license agreement between Balax and plaintiff. Van Vleet took copious notes of these discussions, which ended without any agreements being reached.

Balax sold its first swaging tap on January 3, 1962, and later obtained a patent on its "no lead error" swaging tap.

When plaintiff filed its complaint for infringement on June 17, 1964, it also charged that Balax and Van Vleet had appropriated plaintiff's trade secrets. The district judge, after the original trial, found that the information disclosed by plaintiff to Van Vleet took great effort to develop, had value to plaintiff, and was claimed by plaintiff to have been used by the defendants as a short cut to get into the swaging tap business. 291 F. Supp. at 344-346. Nevertheless, the district court "concluded that while the information disclosed by plaintiff constituted trade secrets, no confidential relationship existed between the parties." 421 F. 2d at 821. This Court affirmed the district court's finding that the defendants were not liable for appropriation of plaintiff's trade secrets.

At the time the infringement suit was filed in 1964, plaintiff had license contracts with ten companies to act as either a manufacturing licensee or sales outlet. Several others were added prior to June 22, 1970, when the Supreme Court denied a petition for certiorari from this Court's opinion invalidating plaintiff's last patent. 399 U.S. 911, S. Ct. 2203, 26 L. Ed. 2d 562. At that time, plaintiff notified all of its licensees of the cancellation of their agreements.

According to flow diagrams furnished by both plaintiff and defendants in their briefs, prior to June 22, 1970,

(1) plaintiff sold some of its kind of taps to distributors; (2) plaintiff sold other of its kind of taps to purchasing licensees who in turn sold them to other distributors; (3) plaintiff's manufacturing licensees manufactured plaintiff's kind of taps and sold them to other distributors; (4) defendant Balax sold its own patented kind of taps to other distributors; and (5) Balax's licensed manufacturers made Balax's kind of taps and sold them to yet other distributors. Thus both plaintiff's and Balax's respective kinds of swaging taps reached the hands of some of the approximately 20,000 independent distributors of swaging and cutting taps. These distributors, in turn, resold the taps to hundreds of thousands of machine shops and other tap users throughout the country.

In seeking to support the judgment of the district court upholding their counterclaim, the defendants have relied primarily upon (1) the provisions of several of plaintiff's license agreements which provided substantially that "Licensee agrees that it will not contest the validity of any patent which is now a part of this Agreement during the life of this Agreement and thereafter"; (2) the provisions of several of plaintiff's sales contracts wherein the tap purchaser acknowledged the validity of the underlying patent or patents without limiting the acknowledgment to the life of the sales arrangement; (3) the bringing or threatening to bring of patent infringement suits by the plaintiff; and (4) the granting of nonexclusive licenses and the exaction of royalties by plaintiff as consideration for not bringing infringement suits.

III

In the prior appeal, Judge Hastings, speaking for this Court and after pointing out that defendants'

counterclaim charged two violations of federal antitrust laws, the first of which was "illegal procurement and enforcement of patents" under the doctrine of fraud-practiced-on-the-patent-office of Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965), said at 421 F. 2d 819:

> "The district court specifically found that defendants had not met their burden of proving fraud on the patent office by clear and convincing evidence as required in Armour & Co. v. Wilson & Co., 7 Cir., 274 F. 2d 143, 148 (1960). Our examination of the record leads us to conclude that such finding is not clearly erroneous and thus we accept it. Accordingly, the conclusion of the district court that this claim of antitrust violation is without merit should be approved."

This conclusion constituted the law of the case and established that the invalidity of the plaintiff's patent was the result of an error of judgment by the patent office based upon good faith applications by the plaintiff. Hence, the fact of invalidity has no probative value in the case in attempting to establish any antitrust violation.

The defendants' second contention of plaintiff's violation of Sections 1 and 2 of the Sherman Act, as analyzed by Judge Hastings in the first appeal, was that "even if all of plaintiff's patents were valid, plaintiff would be guilty . . . for the reason that they have misused their patents to extend the patent monopoly beyond the scope permitted by the Constitution and the Congress." *Id.*

Every patent misuse does not constitute a *per se* antitrust violation,[5] excusing proof of precise damage or

[5] "And if there was such patent misuse, it does not necessarily follow that the misuse embodies the ingredients of a violation of either §1 or §2 of the Sherman Act, . . ." Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 140, 89 S. Ct. 1562, 1585, 23 L. Ed. 2d 129 (1969).

foreclosing inquiry into reasonableness.[6] The Report of the Attorney General's National Committee to Study the Antitrust Laws 254 (1955) concluded that "[f]rom some abuses of patent policy may flow consequences not drastic enough to meet antitrust prerequisites of effect on competition."[7]

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[6] The causes and effects of *per se* antitrust violations were capsulated in Northern Pacific Railway Co. v. United States, 356 U.S. 1, 5, 78 S. Ct. 514, 518, 2 L. Ed. 2d 545 (1958): "However, there are certain agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conlusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use. This principle of *per se* unreasonableness not only makes the type of restraints which are proscribed by the Sherman Act more certain to the benefit of everyone concerned, but it also avoids the necessity for an incredibly complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries, in an effort to determine at large whether a particular restraint has been unreasonable — an inquiry so often wholly fruitless when undertaken. Among the practices which the courts have heretofore deemed to be unlawful in and of themselves are price fixing. United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 210 [, 60 S. Ct. 811, 838, 84 L. Ed. 1129]; division of markets, United States v. Addyston Pipe & Steel Co., 6 Cir., 85 F. 271 [L.R.A. 122], affirmed 175 U.S. 211 [, 20 S. Ct. 96, 44 L. Ed. 136]; group boycotts, Fashion Originators' Guild [of America] v. Federal Trade Comm., 312 U.S. 457 [, 61 S. Ct. 703, 85 L. Ed. 949]; and tying arrangements, International Salt Co. v. United States, 332 U.S. 392 [, 68 S. Ct. 12, 92 L. Ed. 20]."

[7] "We reject the view that any violation of patent law necessarily violates the antitrust laws. From some abuses of patent policy may flow consequences not drastic enough to meet antitrust prerequisites of effect on competition. In addition, many patent abuses are more effectively curbed by simply denying equitable relief as a matter of patent policy. Holding every patent law transgression to be the same as an antitrust violation would, moreover, put the patent owner on a different footing than owners of other property subject to antitrust. For antitrust has its own measure of permissiveness and wrongful conduct. To say that action beyond the borders of the patent grant is a *per se* antitrust violation is to ignore the Supreme Court's distinction between the variant statutory standards of the Sherman, Federal Trade Commission and Clayton Acts as well as to repudiate the body of interpretations distinguishing between offenses unreasonable *per se* and those not."

Therefore we must determine whether a patent misuse occurred and if so, its nature and whether it constituted an antitrust violation.

IV

Congress has made it clear that the exaction of a royalty and the granting of a non-exclusive license as consideration for not suing for infringement, or suing to prevent infringement, do not constitute, in and of themselves, misuse of a patent.[8] As we indicated in the prior appeal and hold in this one, whether any antitrust violation has occurred must be measured as though the plaintiff's patents were valid. Correlatively, an infringement suit does not become an antitrust violation because a patent is held invalid.[9]

The district court concluded that plaintiff monopolized the swaging tap market by, among other matters, "[h]aving obtained concessions as to the 'validity' of its now invalid patent, and having obtained waivers regarding judicial action." 321 F. Supp. at 1096.[10]

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[8] Section 271(d) of the Patent Code provides that "No patent owner . . . shall be . . . deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement." 35 U.S.C. §271(d).

[9] 35 U.S.C. §282: "A patent shall be presumed valid." If this were not so every time a patent was declared invalid every action which had been taken in reliance upon it would be subject to damage suits. This in turn would make it too hazardous to ever seek a patent.

[10] The language used by the plaintiff in several of its license agreements provided: "Licensee agrees that it will not contest the validity of any patent which is now a part of this agreement during the life of this agreement and thereafter."

In 1950, the Supreme Court held that "the general rule" was that a patent licensee operating under a license agreement was estopped to deny the validity of his licensor's patent in a suit for royalties. Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc., 339 U.S. 827, 836, 70 S. Ct. 894, 94 L. Ed. 1312.

All of the licensee restrictions imposed by the plaintiff occurred subsequent to 1950. The plaintiff commenced its infringement suit in 1964. The district court's first judgment was rendered in 1968.

On June 16, 1969, the Supreme Court decided Lear, Inc. v. Adkins, 395 U.S. 653, 89 S. Ct. 1902, 23 L. Ed. 2d 610, holding that a licensee is not estopped to interpose the invalidity of the licensed patent as a defense to an action by the patentee-licensor to enforce the license agreement. The Court expressly overruled its 1950 holding to the contrary.[11]

Thereafter, we remanded this case to the district court to consider "the relevance, if any, of *Lear*." 421 F. 2d at 821. The district court apparently assumed that *Lear* was relevant and that the license restrictions constituted *per se* antitrust violations in the light of *Lear*. The court did not consider whether *Lear* is to be applied retroactively.[12]

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[11] The Court stated: "We are satisfied that Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc., . . . itself the product of a clouded history, should no longer be regarded as sound law with respect to its 'estoppel' holding, and that holding is now overruled." *Id.* at 671, 89 S. Ct. at 1911.

[12] In an earlier opinion, the same district judge held that *Lear* was not to be retroactively applied. Kearney & Trecker Corp. v. Giddings & Lewis, Inc., 306 F. Supp. 189, 201 (E.D. Wis. 1969). We reversed on other grounds, finding that a fraud had been committed on the patent office, that Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172, 86 S. Ct. 347, 15 L. Ed. 2d 247, applied and that the conduct there involved was "predatory." 452 F. 2d 579, 599 (7th Cir. 1971).

Recently the Supreme Court in Chevron Oil Co. v. Huson, 404 U.S. 97, 106-107, 92 S. Ct. 349, 355, 30 L. Ed. 2d 296 (1971), summarized the factors to be considered in determining whether unconstitutional, noncriminal cases are to be applied nonretroactively[13] as a matter of *stare decisis:*

> "In our cases dealing with the nonretroactivity question, we have generally considered three separate factors. First, the decision to be applied nonretroactively must establish a new principle of law, either by overruling clear past precedent on which litigants may have relied . . . or by deciding an issue of first impression whose resolution was not clearly foreshadowed, . . . Second, it has been stressed that 'we must . . . weigh the merits and demerits in each case by looking to the prior history of the rule in question, its purpose and effect, and whether retrospective operation will further or retard its operation.' . . . Finally, we have weighed the inequity imposed by retroactive application, for '[w]here a decision of this Court could produce substantial inequitable results if applied retroactively, there is ample basis in our cases for avoiding the "injustice or hardship" by a holding of nonretroactivity.'"

In *Lear,* there was an express overruling of a past precedent. Although the Court noted that "[l]ong before *Hazeltine* was decided, the estoppel doctrine had been so eroded that it could no longer be considered the 'general rule'" (395 U.S. at 664, 89 S. Ct. at 1908), nevertheless in *Hazeltine* the Court characterized it as

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[13] The Court quoted the basic notion from Griffin v. Illinois, 351 U.S. 12, 26, 76 S. Ct. 585, 594, 100 L. Ed. 891 (Frankfurter, J., concurring in judgment) that "[w]e should not indulge in the fiction that the law now announced has always been the law. . . ." *Id.* at 107, 92 S. Ct. at 356.

the general rule.[14] Whether *Hazeltine* was "clear past precedent" to the Supreme Court in 1971, the unqualified pronouncement in that case undoubtedly made the doctrine clear enough to parties relying upon it from 1950 to 1971.

The prior history of the estoppel doctrine, its purpose and effect, and its merits and demerits were thoroughly canvassed in *Lear*. The Court began its analysis with a statement of the competing policies:

> "The uncertain status of licensee estoppel in the case law is a product of judicial efforts to accommodate the competing demands of the common law of contracts and the federal law of patents. On the one hand, the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made. On the other hand, federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. Sears, Roebuck v. Stiffel Co., *supra* [376 U.S. 225 [84 S. Ct. 784, 11 L. Ed. 2d 661] (1964)]; Compco Corp. v. Day-Brite Lighting, Inc., *supra* [376 U.S. 234 [84 S. Ct. 779, 11 L. Ed. 2d 669] (1964)]. When faced with this basic conflict in policy, both this Court and courts throughout the land have naturally sought to develop an intermediate position which somehow would remain responsive to the radically different concerns of the two different worlds of contract and patent. The result has been a failure. Rather than creative compromise, there has been a chaos of conflicting case law, proceeding on inconsistent premises. Before renewing the search for an acceptable middle ground, we must reconsider on their own merits the arguments which may properly

[14] The Supreme Court of California in *Lear* had described the estoppel doctrine as "one of the oldest doctrines in the field of patent law." 67 Cal. 2d 882, 891, 435 P. 2d 321, 325 (1967).

be advanced on both sides of the estoppel question." 395 U.S. at 668, 89 S. Ct. at 1910.

The Court concluded its survey of the estoppel doctrine by determining:

> "Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued." *Id.* at 670, 89 S. Ct. at 1911.

The key policy motivation weighing the scales in *Lear* in favor of outlawing licensee estoppel was obviously the "unmuzzling" of licensees to challenge patentability. Clearly, that unmuzzling occurred instanter the day *Lear* was decided. Consequently, it operates retrospectively in the sense that it affected the executory portion of license restrictions regardless of when they were negotiated and entered into by the parties. As of June 16, 1969, such restrictions became null and void and unenforceable. Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co., 444 F. 2d 425, 427 (9th Cir. 1971); Panther Pumps & Equipment Co., Inc. v. Hydrocraft, Inc., 468 F. 2d 225, at 231 (7th Cir. 1972).

On the other hand, it is difficult to see how the awarding of damages (assuming they would be provable as

proximately caused by a restriction) would effectuate any unmuzzling, particularly in this case where the defendants are not licensees and were never subjected to the restrictions.

In an analogous situation, the Sixth Circuit has held that a license restriction voidable under *Lear* is not void *ab initio,* entitling the licensee to recoup royalties already paid. Troxel Manufacturing Co. v. Schwinn Bicycle Co., 465 F. 2d 1253 (6th Cir. August 11, 1972).[15]

To award damages occurring prior to the decision of *Lear,* based upon the license restrictions voided on that date, would not enforce *Lear's* policy but would be purely punitive, a result not warranted where, as here, no fraud nor bad faith was shown to be involved. This brings us to the third factor determining retroactivity: it would lead to inequitable results to apply *Lear* retroactively insofar as damages are concerned in the present case.[16]

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[15] Although such a holding may seem to fly in the face of the Supreme Court language that "Lear must be permitted to avoid payment of all royalties accruing after Adkin's 1960 patent issued" (395 U.S. at 674, 89 S. Ct. at 1913), the Sixth Circuit points out that Lear had terminated all license payments prior to the issuance of the patent and that no royalties were paid after the patent issued. 465 F. 2d 1253, page 1259. Thus, there was no question of recouping royalties previously paid.

[16] For example, in United States v. General Electric Co., 272 U.S. 476, 47 S. Ct. 192, 71 L. Ed. 362 (1926), the Court held that a patentee did not violate the antitrust laws by appointing *del credere agents* who sold patentee's products on consignment at a price fixed by the patentee. In Simpson v. Union Oil Co., 377 U.S. 13, 84 S. Ct. 1051, 12 L. Ed. 2d 98 (1964), the Court held that resale price maintenance through coercive "consignment" agreements violated the antitrust laws. Although the Court sought to distinguish *General Electric* on the ground that the product involved there was patented, Mr. Justice Stewart, dissenting, concluded that "[i]t is clear, therefore, that the Court today overrules General Electric." *Id.* at 29, 84 S. Ct. at 1061. Justices Brennan and Goldberg were concerned with "agreements that may have been entered into in reliance upon United States v. General Electric." *Id.* at 31, 84 S. Ct. at 1059. Obviously with these considerations in mind, the

We conclude, therefore, that *Lear* should not be applied retroactively to this case in its damage aspects.

Consequently, the portion of plaintiff's license agreements providing that the licensee "will not contest the validity of any patent which is now a part of this agreement during the life of this agreement" did not constitute a misuse of the patent. The clause became null and void on June 16, 1969, and the patents on which it was based became invalid shortly thereafter as a result of this Court's final decision in that regard. 421 F. 2d 809, cert. denied, 399 U.S. 911, 90 S. Ct. 2203, 26 L. Ed. 2d 562 (1971). At that point the policy of *Lear* had been vindicated.

However the problem here is complicated by the fact that some of the plaintiff's license agreements purport to extend the no-contest provisions beyond the life of the agreements and some of its sales agreements purport to extend the acknowledgment of patent validity beyond the life of the agreement.[17] In Brulotte v. Thys

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majority opinion by Mr. Justice Douglas decided that "[w]e reserve the question whether, when all the facts are known, there may be any equities that would warrant only prospective application in damage suits of the rule governing price fixing by the 'consignment' device which we announce today." *Id.* at 24-25, 84 S. Ct. at 1058. On remand, the district court found that the new rule would be unfair to the litigant in that case, precluding damages. The Supreme Court reversed, holding that the reserved question did not apply to the litigants in that case but to the prospective application of the new rule in other cases. Simpson v. Union Oil Co., 396 U.S. 13, 14, 90 S. Ct. 30, 24 L. Ed. 2d 13 (1969).

[17] Defendants seek support for the judgment in their favor in the fact that some of plaintiff's license agreements including the restrictive language were purchase licenses and others were manufacturing licenses, but they cite no authority which would lend significance to the distinction. Plaintiff on the other hand relies on Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Systems Co., 169 F. Supp. 1, 26 (E.D. Pa. 1958), aff'd., 268 F. 2d 395 (3rd Cir.), cert. denied, 361 U.S.

Co., 379 U.S. 29, 85 S. Ct. 176, 13 L. Ed. 2d 99 (1964), the Court found a *per se* misuse of patent where royalty payments under license agreements projected beyond the expiration date of the last covered patent.[18] The misuse was based on activities (exaction of royalties) occurring in the post-expiration period.

Here the licensees were purportedly agreeing not to contest the validity of plaintiff's patents after the termination of the license agreement.[19] There is no evidence in the record that any licensee terminated his license arrangement with the plaintiff and hence no post-expiration activities actually took place.

However, some misuse may be inferred from the mere presence of the "thereafter" clause. Licensees and purchasers may have been induced to continue their licensing or purchasing arrangements with the plaintiff because if they terminated those arrangements to seek to deal with a competitor such as defendant, they would, prior to

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894, 80 S. Ct. 190, 4 L. Ed. 2d 151 (1959), where similar licenses were involved and the court said: "The purchase requirement pertained to patented gages only . . . . It is to be noted that the licenses do not prevent the licensees from buying gages of any kind, in any quantities, and from whomsoever the licensees pleased, so long as the gages do not infringe Baldwin's patents. In effect, the agreements are undertakings not to infringe the Baldwin patents."

[18] The Court distinguished (and presumably was then still acknowledging favorably) Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc., 339 U.S. 827, 70 S. Ct. 894, 94 L. Ed. 1312, by pointing out that there "[w]hile some of the patents under that license apparently expired, the royalties claimed were not for a period when all of them had expired." 379 U.S. at 33, 85 S. Ct. at 179.

[19] Although each license agreement would expire by its terms with the expiration of the covered patents "and improvements thereon, and under any divisions, continuations, reissues or extensions thereof" nevertheless the terms of the various license agreements could expire while the patents remained in effect since the licensor could terminate for breach and the licensee could terminate without cause, each upon giving 60 days' written notice.

Lear, have been unable to defend against an infringement suit by the plaintiff. Nevertheless, in order to succeed in their counterclaim the defendants must show all of the elements necessary to create an antitrust cause of action, including damages suffered by the defendants as a proximate result of illegal acts of the plaintiff.

V

Much of defendants' evidence intended to show antitrust damages is based upon the alleged failure of the business of Balax to progress in an economically satisfactory manner due to the financial pressures of maintaining its defense to this lawsuit. Even as such damages, if proved, are not recoverable from a patent law standpoint inasmuch as a suit to prevent infringement is not a patent misuse (35 U.S.C. §271(d)),[20] neither are the same damages recoverable from an antitrust standpoint unless the suit is an integral part of a conspiracy to restrain trade or to monopolize[21] over and beyond the protection afforded by the presumptively-valid patent rights.[22]

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[20] See footnote 8. In the prior appeal, this Court concluded that "we do not find adequate grounds for making an award of attorneys' fees to defendants." 421 F. 2d 809, 821.

[21] Dairy Foods, Inc. v. Dairy Maid Products Cooperative, 297 F. 2d 805, 809 (7th Cir. 1961); Clapper v. Original Tractor Cab Co., 270 F. 2d 616, 623-624 (7th Cir. 1959), cert. denied, 361 U.S. 967, 80 S. Ct. 588, 4 L. Ed. 2d 547 (1960). In both the *Clapper* and *Dairy Foods* cases, two or more patentees were alleged to have conspired to pool their patents. See Hartford-Empire Co. v. United States, 323 U.S. 386, 165 S. Ct. 373, 89 L. Ed. 322 (1945). The nexus between patent misuse and possible antitrust violations is a close and obvious one in patent pool situations.

[22] Laitram Corp. v. Deepsouth Packing Co., 279 F. Supp. 883, 891 (E.D. La. 1968): "'Where * * * the infringement suit and notices sent to the trade at the commencement of such suit are the sole cause of damage suffered by the claimant' we are told by a writer who is backed by ample authority, 'the courts have uniformly refused recovery of treble damages' [Note, 52 Col. L. Rev. 936, 937 (1952)]."

Our examination of the record discloses no action by the plaintiff relating to the institution of this lawsuit which differs in any material respect from that of any patentee who has assumed that his patent is valid.

The defendants' original counterclaim, filed on June 30, 1964, did not allege much more than that "Defendants have continually been harassed by Plaintiff and have been the victims of illegal conspiracies in restraint of trade and of interference with contract." An amended counterclaim was filed on February 14, 1966, stating, among other allegations, that the plaintiff and its licensees had agreed to handle plaintiff's taps only and that one of plaintiff's officers "regularly meets with representatives of 'competitive' tap manufacturers in a Metal Cutting Tool Institute and at Tap Standards meetings."

After hearing the evidence in the original trial (at which most of the evidence in the record now before us was adduced), the trial jurge found (291 F. Supp. 328, 348):

> "In my opinion, this counterclaim may not succeed because (1) there was no adequate proof of fraud in procuring the patents in suit, (2) the plaintiffs are not properly chargeable with illegal enforcement of their patents, and (3) there has been no sufficient showing of an illegal combination to restrain trade."

Upon remand there was a two-day trial at which proof was limited to that which was not available at the time of the previous trial The trial judge's findings at the conclusion of the remand trial included a finding that the plaintiff "improperly influenced the pricing structure of swaging taps and exerted an excessive influence on the price thereof" (Finding of Fact 17) and that the "sales to consumers by distributors for Besly and its licensees

were at . . . identical list prices. . . ."(Finding of Fact 19). The evidence shows that swaging taps are sold at approximately the same price.[23] We have searched the record in vain in an effort to find any other evidence tending to support the trial judge's finding, not of price-fixing, but of improper price influencing.[24]

Although "[n]o formal agreement is necessary to constitute an unlawful conspiracy," American Tobacco Co. v. United States, 328 U.S. 781, 809, 66 S. Ct. 1125, 1139, 90 L. Ed. 1575 (1946), similarity in the sale of standardized products does not alone make out a case of collusive price fixing, the reason being that competition will ordinarily cause one producer to charge about the same price charged by any other.[25] United States v. International Harvester Co., 274 U.S. 693, 708-709, 47 S. Ct. 748, 71 L. Ed. 1302 (1927); Cement Mfrs. Protective Ass'n v. United States, 268 U.S. 588, 605-606, 45 S. Ct. 586, 69 L. Ed. 1104 (1925). The Supreme Court "has never held that proof of parallel business

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[23] The evidence consisted of (1) the statement of the General Sales Manager of Balax who testified that prices were identical "so far as I know" (A. 535-536); (2) the statement of plaintiff's General Manager that prices were "pretty comparable" (A. 568); and (3) documentary evidence that two of plaintiff's licensees had identical prices and discounts on one tap size (Tables 3 and 6, Add. A.).

[24] Defendants in their brief point out that plaintiff and all but two of its licensees (and, as supplemented by plaintiff's reply brief, three of the Balax licensees) are members of the Metal Cutting Tool Institute. In Maple Flooring Mfrs. Ass'n v. United States, 268 U.S. 563, at 584, 45 S. Ct. 578, at 585, 69 L. Ed. 1093 (1925), the Supreme Court said: "We do not conceive that the members of trade associations become . . . conspirators merely because they gather and disseminate information . . . bearing on the business in which they are engaged and make use of it in the management and control of their individual businesses. . . ."

[25] In this case the distributor prices of Balax were approximately the same as plaintiff's prices to distributors (A. 673).

behavior conclusively establishes agreement or, phrased differently, that such behavior itself constitutes a Sherman Act offense." Theatre Enterprises, Inc. v. Paramount Film Dist. Corp., 346 U.S. 537, 541, 74 S. Ct. 257, 259, 98 L. Ed. 273 (1954). We conclude that there was no evidence to support a conspiracy to fix or influence prices.

As in Kearney & Trecker Corp. v. Giddings & Lewis, Inc., 452 F. 2d 579, 600 (7th Cir. 1971), cert. denied, 405 U.S. 1066, 92 S. Ct. 1500, 31 L. Ed. 2d 796 (1972), the defendants have argued here that "plaintiff's dominant position, coupled with its restrictive licensing practices, has enabled it to enhance the price level."[26] Our response to this argument continues as there: "If this be so, defendant, as a competing manufacturer of machines, would not have been injured."

VI

There being no evidence to support any *per se* antitrust violations,[27] we proceed to consider whether the totality of evidence, although not constituting patent misuse nor *per se* antitrust violations, did constitute an attempt by plaintiff to monopolize interstate commerce, which caused damage to the defendants.

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[26] Although the prices of swaging taps to distributors were unaffected by a price war in the cutting tap market, nevertheless the price war had caused a 20-25% decrease in plaintiff's sales of swaging taps (A. 564-65).

[27] We recognize that the trial court found that plaintiff "unlawfully foreclose[d] competitors" (F.F. 18) and that this could rise to a *per se* violation (United States v. Griffith, 334 U.S. 100, 107, 68 S. Ct. 941, 92 L. Ed. 1236 (1948)) but we consider this argument *infra* as part of our consideration of monopoly power.

The heart of the trial court's legal conclusion after remand was that:

> "The acts of Besly and Besly's agreements with purchasers of its swaging taps and with its patent licensees violated the Sherman Act because they constituted an attempt by Besly to monopolize trade or commerce between the states of the United States in said swaging tap market." (Conclusion of Law No. 3.)

Section 2 of the Sherman Act proscribes attempts to monopolize. In the words of Judge Learned Hand, "In order to fall within §2, the monopolist must have both the power to monopolize, and the intent to monopolize." United States v. Aluminum Co. of America, 148 F. 2d 416, 432 (2nd Cir. 1945). See also, Bernard Food Industries, Inc. v. Dietene Co., 415 F. 2d 1279, 1284 (7th Cir. 1969) cert. denied, 397 U.S. 912, 90 S. Ct. 911, 25 L. Ed. 2d 92 (1970).

The trial court defined the relevant product market to be "the sale for resale of swaging taps." This market definition ignored the evidence in the record of interchangeability among swaging taps and cutting taps.

In United States v. Du Pont & Co., 351 U.S. 377, 394-395, 76 S. Ct. 994, 1006, 100 L. Ed. 1264 (1956), the Court said:

> "When a product is controlled by one interest, without substitutes available in the market, there is monopoly power. Because most products have possible substitutes, we cannot . . . give 'that infinite range' to the definition of substitutes. Nor is it a proper interpretation of the Sherman Act to require that products be fungible to be considered in the relevant market.
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> . . .

> ". . . In considering what is the relevant market for determining the control of price and competition, no more definite rule can be declared than that commodities reasonably interchangeable by consumers for the same purposes make up that 'part of the trade or commerce,' monopolization of which may be illegal."

In addition to a considerable amount of testimony by both sides as to the physical interchangeability and competitive interchangeability of swaging taps and cutting taps[28] it is entirely clear from the defendants' own admissions that swaging taps are "reasonably interchangeable" with approximately 50% of the cutting tap market.[29]

Using both of defendants' hypotheses, namely that 50% of the $60 million per year tap market is potentially interchangeable between cutting and swaging taps and that after an actual interchange the $30 million market would decrease to $6 million by virtue of the relative inexpensiveness of the total volume of needed swaging taps, the

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[28] A. 533-35, 538-39, 579-82.

[29] In defendants' brief, p. 43, they state:

"The advent of swaging taps seriously threatened the cutting tap manufacturers for two reasons. First, swaging taps have no flutes so that fluted blanks are not needed, and small competitors can readily enter the market with a single thread grinding machine (A-465, 513). Second, each swaging tap replaces on the average at least 10 cutting taps (A-483). Hence although the swaging tap costs twice as much as a cutting tap, swaging taps will replace cutting taps for a consumer at one-fifth the investment. *The parties agree swaging taps can supersede approximately 50% of the cutting taps now in use (A-483, 534, 566). In other words, of approximately* $60,000,000 *in cutting taps sold,* $30,000,000 *will be lost to swaging taps (A-566).* However, when swaging taps supersede the $30,000,000 worth of cutting taps, those swaging taps will sell for only $6,000,000 because as noted each swaging tap, although costing twice as much as a cutting tap, will replace 10 cutting taps (A-483).

"Thus the intrusion of swaging taps into the cutting tap market results in very substantial losses to the established cutting tap manufacturers. . ." (emphasis added).

comparative market position of plaintiff (Besly), defendant Balax and plaintiff's licensees were as follows:

Percentage of $30 Million Tap Market

	1968	1970
Besly	3.2%	2.7%
Balax	1.4	2.2
Besly Licensees	2.4	3.6

Percentage of $6 Million Tap Market

	1968	1970
Balax	15.8%	13.4%
Balax	7.2	10.8
Besly Licensees	12.2	17.8

Accepting all alternatives in favor of the defendants(that is, the $6 million market and combining the plaintiff's share of the market with the share of its licensees) the combined market position of plaintiff and its licensees is 31.2%. In the oft-cited words of United States v. Aluminum Co. of America, 148 F. 2d 416, 424 (2nd Cir. 1945), 33% control of a market "is not enough" to constitute a monopoly.[30]

In Kearney & Trecker Corp. v. Giddings & Lewis, Inc., 452, F. 2d 579, 598 (7th Cir. 1971), cert. denied, 405 U.S. 1066, 92 S. Ct. 1500, 31 L. Ed. 2d 796 (1972), we held that a patentee who controlled one-third of the relevant market posed a "dangerous probability" of monopolizing that market. Although Judge Stevens stated in that case that the dangerous probability test did not "involve an evaluation of the actual likelihood that an attempt would have succeeded if not frustrated by an intervening event," it is noteworthy, if not distinguishing, that there the intervening event was exposure of a

[30] On the other hand, 33.2% "is impressive," United States v. Columbia Steel Co., 334 U.S. 495, 533, 68 S. Ct. 1170, 92 L. Ed. 1533 (1948), although in that case not determinative.

fraud on the patent office and engaging by the patentee in predatory conduct, whereas here the issuance of the patents was procured in good faith by the plaintiff and the intervening agent was this Court's holding that the patents were invalid. Once petition for certiorari was denied, all of plaintiff's agreements based on the invalidated patents were cancelled (A. 565), thus terminating plaintiff's ability to consummate any monopoly.

All of those facts and pertinent precedents, however, simply emphasize that in this case the question of potential monopoly power is exceedingly delicately balanced on several fine lines and we should not purport to rely upon its existence or non-existence if in fact the defendants have not met their burden of demonstrating that plaintiff's conduct "injured [them] in . . . [their] business or property." 15 U.S.C. §15.

Defendant Balax claimed and the district court found that plaintiff's activities enabled it to "unlawfully foreclose competitors, among others Balax, from a substantial market, i.e., the sale for resale of swaging taps" (F.F. 18).

Balax not only had obtained a patent on an improved type of swaging tap, but marketed that tap as a superior product.[31]

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[31] Van Vleet testified in answer to the question [illegible] why Balax went into the swaging tap market (A. 513): "For a number of reasons. One, we were unable to purchase on the market — from an outside vendor blanks of suitable quality. We tried with three manufacturers to purchase blanks and were not successful. Second, we realized how much we — realized as the result of tests how inferior the current swaging taps were to the kind that we could build. The tests that we have run and tests that our customers had run in the field indicated a marked superiority in our product. Thirdly, we could go into the swaging tap business without the purchase — without the capital investment of expensive fluting equipment and make a profit. We, therefore, elected to work on that area and to meanwhile design our own fluting equipment for the cutting taps so that we would be self-

The dollar volume of Balax swaging tap sales (rounded to the closest thousand dollars) were:

1964	$108,000	
1965	156,000	
1966	267,000	
1967	332,000	
1968	430,000	
1969	484,000	
1970	647,000	(projected)

Comparative sales of swaging taps in terms of percentages were:

	1964	1965	1966	1967	1968	1969	1970
Besly	58%	50%	52%	45%	45%	50%	32%
Balax	8	10	15	17	20	23	26
Besly Licensees	33	39	33	38	35	27	42

Balax's sales had increased at a steady, substantial rate prior to the cancellation of Besly's licenses on June 22, 1970; its share of the swaging tap market increased at the same time in an impressive fashion and at the expense of Besly's share of that market (the plaintiff's licensees' share also increasing but not as sharply as that of Balax).

In the ordinary situation of proving damages allegedly caused as the result of certain actions by another, the injured person or corporation shows how its sales *declined* during the pertinent period but even that is not deemed sufficiently probative. In Continental Nut Co. v. Robert L. Berner Co., 393 F. 2d 283, 286 (7th Cir.), cert. denied, 393 U.S. 923, 89 S. Ct. 254, 21 L. Ed. 2d 259 (1968),

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sufficient and do all of our operations within our own four walls."

Van Vleet also testified (A. 467): "Our methods at Balax are so very different, our procedures, our operations, our machinery, is so very different that if we tried to use Besly-Welles methods, we could not operate our shop. We could not make a profit."

The district court found after the first trial that "when the plaintiffs visited the Balax plant in 1965, they found very little in common between the two operations." 291 F. Supp. at 345.

this Court said that "where . . . the plaintiff knows the identity of the customers it claims to have lost and has a record of the previous purchases of each, special damages in the form of profits lost because of the withdrawal of patronage by such customers, to be recoverable, must be proved with that specificity which shows the loss of profit attributable to patronage withheld by the particular customer and that such withholding was the result of . . . [the other party's unlawful act]."

Here, where Balax's sales increased very substantially, the evidence of damages consists of (1) Van Vleet's testimony that he "thinks" that "one of the reasons" for Balax's Detroit representative discontinuing representing Balax was because a Ford Motor Company plant to which he hoped to sell taps had learned of the infringement suit (A. 508-10); (2) Van Vleet's testimony that "I believe our business amounted to something like 60 per cent of what it would have amounted to had this action not been brought" (A. 511) and (3) Balax's sales manager's testimony that but for the lawsuit sales would be "I would say at least twice as much as we are currently [selling]" (A. 536-537).[32]

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[32] This is a far cry from defendants' relied-upon quotation from Zenith Radio Corp. v. Hazeltine Research, Inc., 401 U.S. 321, 323, 91 S. Ct. 795, 798, 28 L. Ed. 2d 77 (1971) that "Zenith demonstrated the fact and extent of its business injury by estimating the percentage of the foreign market it would have enjoyed absent the conspiracy during the four years prior to 1963 and showing the portion it actually enjoyed during those years." As demonstrated by the Supreme Court's earlier opinion in the same case, the "estimate" was based on carefully calculated and precise facts. See 395 U.S. 100, 116, n. 11, 89 S. Ct. 1562, 1573, 23 L. Ed. 2d 129: "The computation of damages, prepared by Zenith's experts and accepted by the District Court, see 239 F. Supp. at 76, reflects a comparison between Zenith's percentage share of the United States television market, ranging from 15.6% in 1959 to 21.7% in 1963, and Zenith's actual share of the Canadian market during the same period, ranging from 3.1% in 1959 to 5.2% in 1961 and down to 3.2% in 1963."

We have already discussed the fact that the institution of the law suit in itself was not an actionable wrong here and that defendants failed to prove that such institution was an integral part of a conspiracy. It is further obvious that the defendants have not proved any specific damages nor shown beyond mere speculation that if any damages were sustained, they were the result of any antitrust violations.

The same manufacturers, including plaintiff, who supply the swaging tap market also supply the cutting tap market, except Balax which supplies only the swaging tap market. There is no evidence in the record that plaintiff has played any part in excluding the defendants from the cutting tap market. Yet the crucial testimony regarding what Balax conceives to be its damages included the following (A. 536, 537):

> "Q. Has Balax expanded its market geographically as far as you feel it can?
>
> "A. No, definitely not.
>
> "Q. What should Balax do in order to expand the market further geographically?
>
> "A. We need a more complete line for one thing, and we need representation in probably three additional areas in the country where we are not represented now and where there is a substantial volume of tap business.
>
> * * *
>
> "Q. How would you expand your line so as to be able to expand your market geographically?
>
> "A. The product which would be most closely related to our line and, therefore, would lend itself to selling to our current dealer and distributor organization would be a line of cutting taps."

In other words, Balax's business has steadily increased and would increase more if it carried cutting taps, which

it does not, through no reason proved to be attributable to the plaintiff.

Although defendants concede that "the intrusion of swaging taps into the cutting tap market results in very substantial losses to the established cutting tap manufacturers,"[33] defendants would hypothesize without supporting evidence that the cutting tap manufacturers would conspire with the plaintiff (1) to keep the price of swaging taps high although those of cutting taps were dropping during a price war and (2) to restrict themselves through license agreements, all to the benefit of plaintiff but to their own great detriment. We have previously considered the pricing aspects and we now add as we did in the *Kearney & Trecker* case, supra, that "defendant never took a license . . . and to the extent that those provisions made plaintiff's licensees less effective competitors, defendant certainly was not harmed." 452 F. 2d at 600, n. 52. There is no evidence that the defendants were foreclosed from any market or, if they were, that they were injured.

We conclude that there was no *per se* patent misuse and were no *per se* antitrust violations, which enable us to consider the reasonableness of plaintiff's actions and to require that defendants prove damages with specificity and also to prove that such damages, if any, were caused by plaintiff's actions. In accordance with our preceding analysis, we conclude that plaintiff's actions in protecting what it presumed to be a valid patent were reasonably designed to effectuate that protection, that defendants did not prove any recoverable damages, and that assuming or speculating that damages were incurred by de-

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[33] See footnote 29.

fendants, they failed to prove that such damages were the proximate result of plaintiff's actions.[34]

Therefore we reverse the district court's judgment.

HASTINGS, Senior Circuit Judge (concurring in the result).

In our decision of the first interlocutory appeal in this case, Bendix Corporation v. Balax, Inc., 7 Cir., 421 F. 2d 809 (1970), cert. denied, 399 U.S. 911, 90 S. Ct. 223, 26 L. Ed. 2d 562, we made a final disposition of all issues therein raised, except the one question remaining on the remand. We noted that the trial court had rather summarily brushed aside the charge of antitrust violations by dismissing defendants' antitrust counterclaim against plaintiffs. Further, we observed that the parties did not address themselves to the *relevance, if any,* of Lear, Inc. v. Adkins, 395 U.S. 653, 668-671, 89 S. Ct. 1902, 23 L. Ed. 2d 610 (June 16, 1969), to this issue in the prior appeal, and that it could not have been considered by the district court because *Lear* was subsequent to its prior judgment. Under those circumstances "we [felt] it should be *first* presented to the trial court for its consideration." (Emphasis added.) We purposely withheld our views on the "relevance, if any," of *Lear* and did not intend to indicate how the district court should resolve this matter. 421 F. 2d at 820-821.

On remand, after further hearing, the district court obviously thought *Lear* was relevant and found Bendix and Sellew liable for damages to Balax and Van Vleet

[34] In this opinion we have commented upon certain of the evidence. The fact that we have not commented upon all of the some 600 exhibits nor upon all of the some 1500 pages of testimony nor upon the many depositions, is not intended to give any indication that we have not considered all of it in reaching our conclusion.

for its Sherman Act violations. In all other respects, the counterclaim was dismissed.

I find myself in agreement with that part of Part IV of the majority opinion which contains the conclusion "that *Lear* should not be applied retroactively to this case in its damage aspects." If *Lear* is not to be applied retroactively, and I agree that it should not be, then, in my judgment, that effectively disposes of the present appeal. Under the express terms of our prior remand "the relevance, if any, of *Lear*" has been determined—it has none. That settles the issue before us and the original dismissal of the counterclaim should be reinstated.

I, therefore, join in that part of the majority opinion holding that *Lear* should not be applied retroactively and on this ground alone concur in the judgment of reversal.

United States Court of Appeals

For the Seventh Circuit

Chicago, Illinois 60604

January 16, 1973.

Before

Hon. JOHN S. HASTINGS, Sr. Circuit Judge
Hon. WALTER J. CUMMINGS, Circuit Judge
Hon. ROBERT A. SPRECHER, Circuit Judge

THE BENDIX CORPORATION and SELLEW CORPORATION, Plaintiffs-Appellants,

No. 71-1483 vs.

BALAX, INC. and JOHN M. VAN FLEET (sic), Defendants-Appellees.

Appeal from the United States District Court for the Eastern District of Wisconsin. (64 C 170)

On consideration of the petition for rehearing and suggestion that it be heard *en banc* filed in the above-entitled cause, no judge in active service having requested a vote thereon, nor any judge voted to grant the suggestion, and a majority of the members of the panel having voted to deny a rehearing,

IT IS ORDERED that the petition for a rehearing in the above-entitled cause be and the same is hereby denied.

APPENDIX B.

The BENDIX CORPORATION and Sellew Corporation, Plaintiffs,

v.

BALAX, INC. and John M. Van Vleet, Defendants.

No. 64-C-170.

United States District Court,
E. D. Wisconsin

Jan. 8, 1971.

DECISION

MYRON L. GORDON, District Judge.

On January 30, 1970, the court of appeals vacated a district court judgment which had dismissed Balax's anti-trust counterclaim against Bendix. 421 F.2d 809, 821 (7th Cir. 1970). The court of appeals remanded the case for reconsideration of the anti-trust issue.

The court of appeals commented, at page 821:

> "* * * the right to estop licensees from challenging a patent is not part of the 'limited protection' afforded by the patent monopoly. Furthermore, the reason is that it creates a danger of unwarranted monopolization. Such danger may be even greater here than in the usual licensee-estoppel case for the reason that in the instant case the licensor sought to create an irrevocable estoppel, not one merely extending during the life of the licenses and sales agreements."

The above quotation from the court of appeals undoubtedly constitutes the "law of the case". In addition, the correctness of the statement is supported by the testi-

mony taken at the original trial and at the hearing on reconsideration. For example, when Besly negotiated to sell swaging taps to Pratt & Whitney, the latter contracted not to contest the validity of the Besly patents "during the life of this agreement or thereafter". A similar understanding was reached with Jarvis Corporation.

When Besly dealt with John Bath & Company regarding a license, the latter company's acknowledgment of the validity of Besly's patents contained no time limitation. In negotiating with Cleveland Twist Drill Co., the acknowledgment of the validity of Besly's patent at first was to last for "the life of said option"; this provision, however, was stricken and thus, the concession as to validity continued for an indefinite period of time.

Besly had contracts with over a dozen different companies to act as either a manufacturing licensee or a sales outlet. Each agreement with the following companies contained a concession by the contracting party either that it would not legally challenge the Besly patent or that it acknowledged the patent's validity: Hy-Pro Tool Company, United Greenfield Corporation, Union Twist Drill Co., National Twist Drill & Tool Co., DoAll Company, and Threadwell Tap & Die Co.

Balax correctly points out that as of June, 1970 there were only two manufacturers of swaging taps in the United States who were not licensed by Besly, to-wit: Vermont Tap & Die Company and Balax. It is thus apparent that through its agreements, Besly had gained and retained control of a substantial portion of the swaging tap market.

I find that in actual practice, Besly was able to, and did, monopolize the swaging tap market and improperly

influence the pricing structure for the commodity. Besly was able to negotiate the royalty rate charged to licensees in a substantial portion of the market and was able to exert an excessive influence on pricing. Having obtained concessions as to the "validity" of its now invalid patent, and having obtained waivers regarding judicial action, Besly was able to, and did, monopolize the swaging tap market. Besly's opportunity to monopolize was enhanced by its having commenced actions against alleged infringers or by threatening to so do. Through this technique, in the words of International Salt Company v. United States, 332 U.S. 392, 396, 68 S.Ct. 12, 15, 92 L. Ed. 20 (1947), Besly was able, unlawfully, "to foreclose competitors from any substantial market."

I conclude that Balax, Inc. and Mr. Van Vleet have established their counterclaim and are entitled to judgment. Their counsel may submit findings of fact and conclusions of law for the court's consideration within 10 days from the date of this decision. Such document shall also be served, at the same time, upon counsel for Bendix, who are to have one week thereafter in which to file with the court any objections to the proposed findings of fact and conclusions of law.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WISCONSIN

THE BENDIX CORPORATION,
a corporation of Delaware, and
SELLEW CORPORATION,
a corporation of Illinois,

Plaintiffs and
Counterclaim Defendants

v.

Case No. 64-C-170

BALAX, INC., a corporation of
Wisconsin, and JOHN VAN VLEET,
an individual,

Defendants and
Counterclaim Plaintiffs

FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Court makes the following Findings of ultimate Facts based on (a) the record in the original trial (January 19-25, 1968), supplemented by (b) the additions to the record in the Court of Appeals and the opinion of the Court of Appeals, and (c) the record made at the hearing in this Court on reconsideration on November 9 and 10, 1970.

Parties and Basic Chronology Incident to this Litigation

1. This suit was instituted on June 17, 1964 by Besly-Wells Corporation, an Illinois corporation (later known as Sellew), against Balax, Inc., a Wisconsin corporation (Balax), and John Van Vleet, an individual (Van Vleet). The original plaintiff's corporate name was subsequently changed to Sellew Corporation, and the caption of this action was duly amended to reflect this fact.

The Complaint alleged (a) infringement of Besly's swaging tap patents by swaging taps manufactured and sold by Balax, (b) the unlawful retention and use by VanVleet and by Balax of Besly's trade secrets, for which Besly alleged it expected to receive as compensation royalties on its swaging tap patents, and (c) the alleged use by Balax of packaging and display material copied from or deceptively similar to that employed by Besly, to Besly's damage. As early as April 20, 1962, Besly had formally charged Balax with infringement of Besly's two swaging tap patents, Reissue 24,572 and 2,991,491, and also with said unauthorized use of trade secrets, and demanded an accounting for the profits and damages resulting therefrom.

2. John VanVleet, a mechanical engineer, who prior to 1959 had experience in the improvement of cutting taps for which he obtained U.S. letters patent, was familiar with swaging taps. In November, 1959 VanVleet organized Balax, Inc. and was the owner of all of its outstanding stock. From November, 1959 to January, 1962 Balax engaged in the building of tap thread grinding machines by extensive conversions of second-hand Excello machines, first in a little machine shop in Milwaukee, Wisconsin, and commencing in September, 1960 in a leased one-story plant with approximately 2000 square feet of manufacturing space and 1000 square feet of office space, located in the Town of Merton, Waukesha County, Wisconsin. The only products manufactured and sold by Balax until 1969 were swaging taps which Balax began selling in January, 1962.

On June 30, 1964 Balax and VanVleet filed their Answer and their Antitrust Counterclaim in the above entitled action, and Besly responded to the counterclaim on July 6, 1964.

3. In 1965 The Besly-Welles Corporation, a Delaware corporation, was incorporated as a wholly-owned subsidiary of The Bendix Corporation (Bendix), and Besly-Welles Corporation, an Illinois corporation, transferred to The Besly-Welles Corporation twenty-three patents and patent applications, including the swaging tap patents involved in this litigation, and also

> "all claims for damages by reason of past infringement of said letters patent with the right to sue for, and collect the same for its own use and behoof, ..."

Besly of Delaware then applied for and was given permission in February, 1966 by this Court to intervene in this action as one of the parties plaintiff therein upon a Stipulation filed February 10, 1966, wherein among other things the following appeared:

> "6. The Besly-Welles Corporation shall be subject to and bound by all prior proceedings in this action; * * *."

4. After said intervention, Balax and VanVleet applied for and received permission from this Court to, and did on February 14, 1966 file an Amended Answer and an Amended Counterclaim, and on May 2, 1966 Sellew, the original plaintiff, and Besly of Delaware filed a joint Answer to said Amended Antitrust Counterclaim in which they prayed:

> "that the counterclaim be dismissed and that this court order the relief prayed for in Plaintiffs' complaint."

This Court referred in its original Opinion to "the plaintiffs collectively as Besly", a procedure also followed herein.

Material Chronology of the Three Swaging Tap Patents Involved Here

5. The earliest swaging tap patent issued October 1, 1957, and was reissued as Re. 24,572 on December 2, 1958.

6. On July 11, 1961 Patent No. 2,991,491 for a fluteless swaging tap issued. In a stipulated settlement of a suit against Jarvis Corporation, this patent was in December, 1963 decreed valid by a Massachusetts United States District Court. However, this Court on May 28, 1965 dismissed this action as to said patent with prejudice upon an affidavit of Besly patent counsel that Besly's own first successful commercial swaging tap manufactured in 1956 and 1957 had anticipated and rendered void said Patent No. 2,991,491 issued to Besly in 1961, and the Balax and VanVleet motion for summary judgment on their counterclaim was in this respect granted May 28, 1965.

7. The third patent, No. 3,050,755, issued August 28, 1962 for "Method of forming threads by applying sliding pressure".

8. Swaging taps made by Besly under its swaging tap patents are known and sometimes herein referred to by the Besly trademark as "X-Press" taps.

Preceding Jucial (sic) Action Herein

9. After the original trial, this Court held Patent Re. 24,572 valid and infringed, and Patent 3,050,755 invalid though infringed if valid, and dismissed on the merits plaintiffs' claims in count II of the Complaint and the action as to John M. VanVleet individually and also dismissed on its merits the Amended Antitrust Counterclaim of Balax and VanVleet.

10. While on appeal, Besly of Delaware, said wholly-owned subsidiary of Bendix and Sellew Corporation, filed a "Motion to Change the Title of This Suit" to replace the name of The Besly Welles Corporation with The Bendix Corporation, which the Court of Appeals granted and thus Bendix became a named party in this litigation by way of substitution for Besly of Delaware, with Sellew continuing as a party plaintiff.

On said appeal, the remaining two Besly patents were held invalid but said Antitrust Counterclaim dismissal was on January 30, 1970 ordered vacated and remanded for reconsideration. A petition for a writ of certiorari to the Court of Appeals for the Seventh Circuit was denied June 22, 1970.

11. The hearing on reconsideration was held on November 9 and 10, 1970, at which time all parties appeared by counsel and, with respect only to liability for damages as alleged in said Amended Antitrust Counterclaim, (a) Bendix and Sellew adduced additional testimony and introduced additional exhibits not available at the time of the original trial, and (b) Balax and Van Vleet offered in rebuttal additional testimony and documentary evidence. The evidence received by the court at the hearing on reconsideration was restricted by the order of the District Court to that evidence which was not available at the time of the original trial.

This Court filed its decision on January 8, 1971.

Relative Status of Balax and Besly and Besly's Patent Licensees in the Swaging Tap Market at the time (a) this suit was started, (b) of the original trial, and (c) of the reconsideration hearing

12. June 17, 1964

(a) Balax with four employees, in addition to Van

Vleet, and operating one tap thread grinding machine, commenced making and selling swaging taps in January, 1962. On June 17, 1964, when this suit was started, Balax was still operating only one thread grinding machine but, in addition to Van Vleet, had four production employees and an office staff consisting of one girl, a shipping clerk who also acted as truck driver and sales order clerk, and also a mechanical engineer hired to take over direct supervision.

Balax swaging tap sales for the fiscal year ending October 31, 1964, rounded out to the nearest thousand, were $108,000, on which Balax realized no profit.

(b) By June, 1964, Besly had consummated five written agreements under which purchasers agreed to buy swaging taps only from Besly or its licensees, each purchaser also in writing agreeing for an indefinite period of time not to contest the validity of the Besly swaging tap patents or acknowledging their validity. These purchasers included DoAll Company, Cleveland Twist Drill Co., John Bath & Co., Pratt & Whitney, and Threadwell Tap & Die Co., a wholly-owned subsidiary of Bendix, the last four of whom were tap manufacturers and were granted options on Besly patent license wherein the licensee agreed not to contest the validity of the licensor's patents during the life of the license agreement "and thereafter".

In addition, Besly had licensed the following five tap manufacturers, each agreeing in its patent license not to contest the validity of the Besly swaging tap patents during the life of the license agreement "and thereafter", to-wit, Hy-Pro Tool Co., a Division of Continental Screw Co., United-Greenfield Corporation, National Twist & Tool Co. and its domestic divisions Winter Bros.

Co. and Standard Tool Co., Union Twist Drill Co. and Jarvis Corporation.

Besly sales for calendar 1962 and 1964 were $580,695 and $777,414, and sales by Besly's licensees were respectively $261,865 and $445,212 (calculated from PX 22 and currently applicable royalty rate as set forth in the license agreement).

13. January 1968

(a) In January, 1968 when the original trial occurred, there were, including Balax, five unlicensed swaging tap manufacturers in the United States.

In fiscal 1967, Balax swaging tap sales were $332,000.

(b) In January, 1968, the time of the original trial, although disclosed only at the later reconsideration hearing, Besly had added as a patent licensee Morse Twist Drill & Machine Co. and Pratt & Whitney.

The swaging tap sales of Besly were for calendar 1967 $895,400 and for fiscal 1967 those of its licensees, excluding Morse and Pratt & Whitney, were $747,536 (calculated from 5% royalty rate and total royalties as in PX 184). Besly did not dispute testimony that the aggregate of these sales of Besly and its licensees were approximately 75% of all current domestic swaging tap sales.

14. June 22, 1970 when Certiorari was denied

(a) As of June, 1970 there remained only two unlicensed swaging tap manufacturers in the United States, to-wit: Balax and Vermont Tap & Die Co. whose latest Wedger tap Besly had also charged with infringement in 1962. The swaging tap sales of Vermont Tap were

not established but the record indicates they were not significant in amount.

In fiscal 1969 Balax swaging tap sales were $483,693.21.

(b) At the hearing on reconsideration on November 9 and 10, 1970, it was developed from testimony by a witness and documents produced by Bendix that (i) Cleveland Twist Drill Co. had on October 1, 1968 taken a patent license from Besly and (ii) Besly had entered into agreements for the sale of its swaging taps with Illinois Tool Works, Brown & Sharp, Wood & Spencer, and Brubaker Tool Corp., and was also selling to its patent licensees Morse Twist Drill, Cleveland Twist Drill Co. and Jarvis Corporation.

In calendar 1969 the swaging tap sales of Besly were $1,037,300, and in fiscal 1969 those of Besly's licensees, excluding Morse, Pratt & Whitney and Cleveland Twist were $553,878.80 (calculated from PX 183 and 184 on the basis of a 5% royalty).

15. The sales of swaging taps by Balax, by Besly and by Besly's patent licensees referred to above were all made in the course of trade or commerce among the several states of the United States. Except for an insignificant amount of direct sales, all swaging tap sales were made to distributors for resale to the consumer, and Besly's witness established that in accordance with industry practice such distributors were restricted by the respective manufacturers to selling cutting taps and swaging taps obtained from them. The record establishes that Besly and only two of its licensees, United-Greenfield and Winter Bros. division of National Twist, through their exclusive distributors sold 50% to 60% of the consumer purchases of taps in the United States in 1961. The Besly practice of tying to it the major cutting tap manufacturers

in the United States by requirements purchase agreements and patent licenses, each of which irrevocably waived the defense of patent invalidity, unreasonably interfered with the efforts of Balax to obtain distributors for its Balax taps and from entering the cutting tap market sufficiently to offer distributors a full line of taps, with resultant injury to Balax and to Van Vleet.

16. Besly solicited and obtained agreements acknowledging the validity of the Besly swaging tap patents and agreements not to contest the validity of the Besly patents each for an indefinite period of time from purchasers who agreed to purchase swaging taps only from Besly or Besly licensees. Thus when Cleveland Twist Drill's letter acknowledged the validity of the Besly patents for "the life of said option", these words were stricken by Besly and the concession as to patent validity continued for an indefinite period of time. Besly also solicited and obtained from numerous other tap manufacturers in the United States patent license agreements for the Besly swaging tap patents wherein the licensee specifically agreed not to contest the validity of the Besly swaging tap patents, including No. 2,991,491, during the life of the license agreement "and thereafter".

(a) As early as 1958, before its patent Re. 24,572 here in suit had issued, Besly's own letters reveal that Besly approached both Detroit Tap and Tool Co. and Pratt & Whitney seeking to induce them to take licenses from Besly and to aid Besly in ensuring the patentability of Besly's pending patent application claims. To Detroit Tap, Besly held out the prospect of increased profits for both Besly and "competitors whom we know and respect" if validity of Besly's future patents could be assured. To Pratt & Whitney, Besly held out the scarcely veiled

threat of a highly expensive and drawn out legal entanglement if Pratt & Whitney failed to take a license under Besly's patents.

(b) Besly succeeded in inducing Hy-Pro Tool Company Division, Continental Screw Company, on July 3, 1959 to agree, without any limitation as to time, not to contest the validity of Besly's patents, and then filed suit against the largest tap manufacturer, United-Greenfield Corporation, on August 24, 1959. On December 23, 1959 United-Greenfield Corporation took a license acknowledging validity of Besly's patents and the infringement suit was dismissed. Thereafter Besly added Union Twist Drill Company and National Twist Drill & Tool Company as licensees with similar license agreements. On May 24, 1962 Besly filed a patent infringement suit against Jarvis Corporation, which was terminated by a Consent Judgment on December 27, 1963 wherein the court, upon application of both parties, found valid the three Besly patents including Patent 2,991,491, which in this action Besly's counsel in May, 1965 conceded was invalid because of swaging taps previously made by Besly.

(c) On October 4, 1961 Besly offered Balax a limited license under the Besly patents conditioned on making and pricing Balax taps so as to preclude competition with the Besly "X-Press" swaging taps made and sold by Besly and Besly licensees, the pertinent language of Besly Exhibit 141 reading as follows:

> "2.2 As a part of this agreement you will want a license to make and sell Besly V-Press taps designed to your new specification. You can readily appreciate that we are not looking for new competitors in the tap business. I assume therefore that we may stipulate in the agreement that you would concentrate on the Balax style of tap and would sell these at the

higher price which their superior performance justifies and would not offer the conventional X-Press tap, now on the market."

(d) Besly patent license agreements obligated Besly to prosecute third party infringers, "provided that good business judgment requires bringing an infringement suit or suits." This contemplated, if it did not obligate, Besly to confer with its non-exclusive licensees as to such suits, as evidenced by Besly's actions in respect to the commencement of this suit against the Balax tap instead of against Vermont's Wedger tap, established by its letter of June 4, 1964 to United-Greenfield reading as follows:

"In reference to our correspondence on Vermont's 'Wedger' Tap, our executives and legal counsel feel the 'Balax' Tap, made in a small shop near Milwaukee, poses more of a competitive threat in the market than the 'Wedger' Tap.

We are therefore notifying 'Balax' that they may be in violation of our patents. Our counsel feels it is wise to tackle only one of our 'unlicensed competition' at a time, and we are therefore following this route.

As progress is made, we will advise."

17. Besly by said agreements gained and retained control of a substantial portion of the swaging tap market, thereby monopolizing the same and by means thereof improperly influenced the pricing structure of swaging taps and exerted an excessive influence on the price thereof.

18. Besly threatened and instituted suits against alleged infringers, and through this technique until July, 1970, when Bendix terminated the various purchase and patent license agreements, Besly was able to and did

thereby unlawfully foreclose competitors, among others Balax, from a substantial market, i.e., the sale for resale of swaging taps.

19. The record discloses from testimony of the Besly witness as well as Balax witness and documents, that the list prices and discounts therefrom for swaging taps sold by Besly and Besly patent licensees have been identical since this suit was instituted, and that the periodical increases in the swaging tap prices have not been affected by price wars in cutting taps with respect to which the Bendix witness testified at length at the reconsideration hearing. The testimony of a Balax witness that the sales to consumers by distributors for Besly and its licensees were at said identical list prices was not challenged by any competent evidence.

20. Besly's acts and its agreements, as found in the above Findings, injured the business and property of John M. Van Vleet individually and also the business and property of Balax, Inc. When this suit was instituted Balax faced the necessity of choosing either (a) to cease production of its Balax tap and for practical purposes go out of business, (b) paying tribute with consequent increase in production costs even if Besly would have granted Balax a patent license, or (c) incurring the financial burden and expense of this litigation, which undisputed testimony established has also seriously interfered with Balax developing production facilities and sales territory, to the injury of the business and property of Balax, Inc. and also the business and property of John M. Van Vleet individually.

CONCLUSIONS OF LAW

As to the law applicable to the Facts as above found, this Court concludes:

1. The law of this case, to the extent set forth therein, appears in the January 30, 1970 Opinion of the Court of Appeals for the Seventh Circuit, reported in 421 F.2d commencing at page 809, particularly as set forth on page 821 and quoted by this Court in its Opinion filed January 8, 1971.

2. The written agreements of Besly with purchasers of Besly swaging taps and with Besly's patent licensees, violated the Sherman Act by unreasonably restraining trade or commerce between the states of the United States in the relevant product market for purposes of this case, i.e., the sale for resale of swaging taps.

3. The acts of Besly and Besly's agreements with purchasers of its swaging taps and with its patent licensees violated the Sherman Act because they constituted an attempt by Besly to monopolize trade or commerce between the states of the United States in said swaging tap market.

4. The monopoly seemingly granted by the swaging tap patents issued to Besly and involved in this action was by Besly's acts and agreements extended beyond the lawful scope of said apparent monopoly as defined by the Constitution and Statutes of the United States, and thereby effected in violation of the Sherman Act an unwarranted attempt to monopolize and a monopolization of the swaging tap market.

5. The business and property of Balax, Inc. and also that of John M. Van Vleet individually were injured by the acts and agreements of Besly, which this Court con-

cludes as to said swaging tap market unreasonably restrained trade or commerce among the several states and constituted an attempt to monopolize said trade or commerce in said market, and Balax, Inc. and John M. Van Vleet individually each sustained damages as a result of said violations of the Sherman Act.

6. Bendix Corporation and Sellew Corporation, counterclaim defendants, are jointly and severally liable under Section 4 of the Clayton Act to Balax, Inc. and to John M. Van Vleet individually, counterclaim plaintiffs, for damages which each counterclaim plaintiff respectively sustained from the aforementioned violations of the Sherman Act.

Further proceedings will be held to determine the amount of damages and attorneys' fees to be paid to Balax, Inc. and John M. Van Vleet.

Dated this /s/ 10th day of February, 1971.

/s/ Myron L. Gordon
United States District Judge
Eastern District of Wisconsin

APPENDIX C.

The BENDIX CORPORATION, a corporation of Delaware, and Sellew Corporation, a corporation of Illinois, Plaintiffs-Appellees (Cross-Appellants),

v.

BALAX, INC., a corporation of Wisconsin, and John M. Van Vleet, an individual, Defendants-Appellants (Cross-Appellees).

Nos. 17343, 17344.

United States Court of Appeals,
Seventh Circuit.

Jan. 30, 1970.

* * *

Before CASTLE, Chief Judge, HASTINGS, Senior Circuit Judge, and FAIRCHILD, Circuit Judge.

HASTINGS, Senior Circuit Judge.

Plaintiff's predecessors brought this action charging defendants with infringement of three of its patents and with appropriation of its trade secrets. Defendants counterclaimed charging plaintiff with violations of the antitrust laws.

The original plaintiff was Besley-Welles Corporation, an Illinois corporation. After this suit was commenced its assets were acquired by Bendix Corporation of Delaware. Its business is now operated as a division of Ben-

dix. The defendants are Balax, Inc., a Wisconsin corporation, and John M. Van Vleet, Balax's founder and president, a resident of Wisconsin.

Before trial, plaintiff withdrew its patent No. 2,991,491, admitting its invalidity due to plaintiff's own prior public use. The trial court held plaintiff's Patent Re. 24,572 valid and infringed; it held plaintiff's Patent No. 3,050,755 infringed but invalid for prior public use by plaintiff; it dismissed that portion of the complaint charging defendants with appropriation of plaintiff's trade secrets; it dismissed defendant Van Vleet as an individual defendant; it denied plaintiff's request for treble damages and attorneys' fees; and it dismissed defendants' antitrust counterclaim.

In No. 17343, defendants appeal from those parts of the judgment herein holding Patent Re. 24,572 valid and infringed and denying relief to defendants on their counterclaim charging plaintiff with violations of the antitrust laws. Affirmatively, defendants seek an award of attorneys' fees, a decree finding plaintiff in violation of the Sherman Act and a remand to determine damages allegedly suffered by defendants.

In No. 17344, plaintiff appeals from those parts of the judgment herein holding its Patent No. 3,050,755 invalid; dismissing that part of the complaint charging defendants with appropriation of its trade secrets; dismissing Van Vleet as an individual defendant; and denying plaintiff's request for treble damages and attorneys' fees.

The two remaining patents involved in this litigation both relate to a device known as a fluteless swaging tap. Patent Re. 24,572, hereinafter referred to as the reissue patent, covers the tool itself. Patent 3,050,755, hereinafter

referred to as the '755 or method patent, covers the method performed by the tool.

A tap is a tool used to form threads on the cylindrical inner surface of a hole. A swaging tap forms threads by deforming the metal and displacing it into the form of the desired thread. A swaging tap, which forms no chips, is to be distinguished from a cutting tap which forms threads by cutting away the metal with cutting teeth. The swaging method is said to be more economical and easier to perform than the cutting method. Swaging taps have a longer life than cutting taps. They produce no metal chips. The costly and time consuming inspection and cleaning of the work after the job is completed is thus eliminated.

As found by the trial court, Patent Re. 24,572 is a reissue of U.S. Patent No. 2,807,813. This tap has a shank and a threaded section. The threaded section has a cylindrical portion where the threads are substantially the same diameter and a tapered end portion where the threads are of reduced diameter. The threads have high spots or lobes with relieved areas in between these high spots. It is the lobes that do the actual swaging work since the relieved areas are out of contact with the material being formed. When used, the tool is rotated into a hole and the lobes force their way through the hole. The displaced metal takes the shape of the tap threads.

The method of the '755 patent is performed when the tool of the reissue patent is used in the prescribed manner. The method claims describe the application of pressure from the tap threads and the movement of the metal as it conforms its shape to that of the tap thread.

PATENT RE. 24,572 — VALIDITY

Defendants urge several reasons for the invalidity of the reissue patent. Their first contention is that it is anticipated by the 1939 German Gebrauchsmuster Patent 1,-455,626 (GM). Section 102(b) of Title 35, U.S.C.A. provides "A person shall be entitled to a patent unless — * * * (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States * * *."

A GM is clearly a patent within the meaning of this section, but it is not a printed publication. American Infra-Red Radiant Co. v. Lambert Industries, Inc., 8 Cir., 360 F. 2d 977, 991-994, cert. denied, 385 U.S. 920, 87 S. Ct. 233, 17 L. Ed. 2d 144 (1966); Permutit Co. v. Wadham, 6 Cir., 13 F. 2d 454, 458 (1926); Reeves Bros., Inc. v. United States Laminating Corp., 282 F. Supp. 118, 134-136 (E.D.N.Y. 1968); Permutit Co. v. Graver Corp., 37 F. 2d 385, 390 (N.D. Ill. 1930), aff'd on other grounds, 7 Cir., 43 F. 2d 898, 902 (1930), aff'd 284 U.S. 52, 52 S.Ct. 53, 76 L.Ed. 163 (1931); and Safety Gas Lighter Co. v. Fischer Bros. & Corwin, 236 F. 955, 962 (D.N.J. 1916), aff'd, 3 Cir., 247 F. 1005, 159 C.C.A. (1918).[1]

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[1] A number of the opinions above cited ably set forth the nature of a Gebrauchsmuster. The latest such effort is that of Judge Bartel in *Reeves Bros., supra* at 134-135. "[A] Gebrauchsmuster is registered under the German law after an application filed in the German Patent Office. If the application meets the requirements of form and content, the GM is issued without any novelty search and is accompanied by the publication of an official notice in the German Official Gazette that it has been so issued. There is no requirement of nonobviousness in order to obtain a GM, and its purpose is to enable the applicant to obtain a speedy protection for a new article and if desirable, to concurrently

On this basis, all parties agree that only that which is "patented" by a GM may be considered as prior art under Section 102(b), *supra*. Subject matter which is ancillary to, but not a part of, the patented subject matter may not be considered. The district court so held. The disagreement between the parties concerns the method of determining what is "patented" by the Gebrauchsmuster in question.

The trial court held that a GM "patents" only that which is disclosed by the bare words of its claims. It relied on language in *Reeves, supra,* in holding that it is never permissible to look to the specifications of a GM in construing its claims. The *Reeves* court had said: "* * * for anticipation purposes under Section 102 a GM * * * is a reference only for what is patented, *i.e.,* for what it claims and not, for what is disclosed in its specifications." 282 F. Supp. at 136.

Defendants maintain that the claims of a GM are to be construed in light of its specifications and seek to distinguish *Reeves*. They note that in *Reeves* a GM was cited as a reference against a process patent and that a GM is by definition a patent only on an article and never

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seek a regular patent, a procedure which would consume much more time. After registration the specifications and claims become available to the public and anyone has free and open access to the same. The GM was not a printed publication at any time and is referred to as a utility model. It is limited to a maximum of six years instead of eighteen years, covers only articles and never can cover processes as such, and grants to the inventor the exclusive right to prevent others from making, using or selling his article and also to recover damages for any infringement. * * *

"By a directive issued to its examiners in 1965, the United States Patent Office resolved certain prior inconsistent practices as to the treatment of GMs and stated that GMs may be considered as patents for anticipation purposes within the purview of Section 102. Official Gazette of the United States Patent Office, Nov. 2, 1965, Vol. 820, No. 1." (Footnote omitted.)

on a process. From this they conclude the *Reeves* court ignored the specifications only because they referred to a process.

However, the *Reeves* court clearly recognized that an article patent may in some cases anticipate a process. Such would be the case where "a process in one patent can produce only one article and that article is definitely covered by what is claimed in another patent [*e.g.*, in an earlier GM] * * *. [B]ut this alone may not be sufficient to treat the article patent as an anticipation of the process patent, if many processes are described in the article patent while only one specific process is described in the process patent." 282 F. Supp. at 136-137.

The patent in suit in *Reeves* claimed a method of laminating a sheet of plastic foam to a sheet of fabric by the application of heat from a gas flame. The GM cited against it claimed a fabric lined foam material with the fabric bonded directly to the foam. The specifications of the GM described the process by which the article could be made indicating the application of heat from heated rollers, hot gas, infrared light, or high frequency current.

When the language of *Reeves* is read in light of these facts, it is clear to us that it calls for neither an absolute rule that GM specifications may never be resorted to, nor an absolute rule that they may always be resorted to in interpreting the claims. Rather, it is consistent with our own judgment as to the correct rule. We conclude that the specifications of a GM may be resorted to for the purpose of clarifying the meaning of the language used in the claims, but may not be resorted to for the purpose of adding completely new material to that which is disclosed by the claims.

For example, in *Reeves* the GM claims disclosed an article which could have been produced by several processes. The court had held that in such a case the article patent could not anticipate any one of those processes when cited against a patent specifically claiming one of them. Therefore, resort to the specifications there to learn in what manner the claimed article was actually produced would have added wholly new matter to the claims. Without the specifications, the *Reeves* claims could anticipate no process, but with them, the claims would anticipate a process as well as an article. *Reeves* was thus a paricularly clear case of specifications adding new matter to what was "patented" by the claims, rather than simply giving meaning to the words of the claims for the purpose of determining what was "patented" by them.

Each case will, of course, turn on its own facts. In each case the question will be "What is 'patented'?" The specifications of the GM may be resorted to if necessary to clarify the meaning of the words of the claim — *to determine what* it is that the claims "patent" *but not to add to* what they patent.

Thus, the double question here is whether resort to the specifications is necessary to determine what is patented and whether such resort may be taken without increasing the scope of what is patented.

The claims of the GM cited against the reissue patent in suit are:

> "1. Thread pressing tap for the chipless production of inner threads, characterized in that the thread tap (a) provided with a continuous, *i.e.*, uninterrupted thread along the circumference of its thread cross section (b, c, d) is undulatingly formed over its entire length or partly, and, consequently, has continuous or interrupted depressions (f, f', f'') ex-

tending longitudinally axially, as well as spirally axially or otherwise, which though they recede with respect to the outer circumference (g, g', g''), nevertheless have the thread extend over their circumferential surface in the profiling of the thread to be cut and otherwise along the circumference of the tap.

"2. Thread pressing tap for the chipless production of inner threads in accordance with claim 1, characterized by the shape, disposition and arrangement reflected by the drawing and the specification."

These claims make clear that what is patented is a swaging tap, *i.e.*, a "tap for the chipless production of inner threads." They also make clear that the patented tap is of a particular form and shape — one "characterized by the shape, disposition and arrangement reflected by the drawing and the specification." However, by this cross reference, the words of the claims leave unclear exactly what the "shape, disposition and arrangement" of the patented article is meant to be. Thus, it is plainly necessary in this case to resort to the specifications to determine what is "patented" by the claims.

It is just as plainly possible to take such resort without increasing the scope of what is patented by the claims. The claims clearly profess to patent a particular article of a particular shape, disposition and arrangement. They also clearly indicate how such particular shape, disposition and arrangement is to be determined. Claim 2 is an obvious incorporation by reference and makes the specifications and drawings as much a part of the claim as if they were reproduced verbatim in the claim. Without such an incorporation, Claim 2 would be meaningless.

The trial court completely disregarded Claim 2. It reasoned that to give it any effect would undermine its

conclusion as to the proper construction of a Gebrauchsmuster: "Claim 1 is the only real claim of the GM. Claim 2 incorporates by cross reference 'the shape, disposition and arrangement reflected by the drawing and the specification.' However, to allow such a cross reference would defeat the limited use which this court has concluded must be made of the GM."

We do not agree that allowing the obviously intended cross reference to the specifications here defeats the limitations to which Gebrauchsmusters are admittedly subject. We allow such cross reference not to increase the scope of what is patented by the Gebrauchsmuster claims but only to accomplish the task at hand of determining what it is that those claims patent.

The use of GM specifications which we here find proper is fully supported by the German practice. Under that practice, while claims are frequently used, they are not required, and the entire specification will be construed in determining what is patented. The advisory explanations accompanying the German Regulations regarding "the application for Gebrauchsmuster" provide:

> "Indication of Novelty.
>
> According to sec. 2 paragraph 2 of the statute, the application must specify 'what purpose of work, or utility, the new form or device is intended to serve.' Since this indication is of importance for the range of the legal protection corresponding with the recording, applicant will do well in many cases, even tho the law does not prescribe the setting of a protection claim, to summarize separately from the description, in the type of construction of a patent claim, the legally protectable characteristics of the model." Patents and Gebrauchsmuster in International Law, Emerson Stringham, Pacot Publications, Madison, Wisconsin, 1935, p. 248.

Stringham comments:

> "Scope of protection involves much the same problems which arise everywhere in patent law. The German statute requires no claim for Gebrauchsmuster. The tendency, during a decade or so, of the Reichsgericht to hold itself not bound by the statutory claim of the long-term patent, finds freer play with Gebrauchsmuster; * * *." *Id.* at 255.

Having concluded that what is patented by Gebrauchsmuster Patent 1,455,626 should have been determined by construing its claims in the light of its specifications rather than on the bare words of the claims, it becomes necessary to determine whether that patent, properly construed, does anticipate, and thus invalidate, plaintiff's Patent Re. 24,572 in suit.

Plaintiff's expert testified, and the district court found, that on its construction of the GM, the GM lacked several elements claimed by plaintiff's reissue patent. The first element found wanting was a "continuous thread * * * of substantially equal depth taken in all planes intersecting the axis of said tool longitudinally thereof * * *." This element is clearly present when the claims of the GM are read in light of the specifications and drawings. Claim 1 of the GM calls for "a continuous, *i.e.*, uninterrupted thread along the circumference of [the tap's] thread cross section (b, c, d) * * *," and specifically notes that the thread continues through the "depressions (f, f', f")" of the tool which "have the thread extend over their circumferential surface in the profiling of the thread to be cut * * *." The GM specifications note that the entire thread shaft is "continuously covered with a thread which, as far as its profile and its pitch are concerned, is equivalent to the thread to be cut." Figure 3

of the GM drawing, reproduced below, clearly shows a uniform tooth depth.

[Fig. 3 — Not printed]

Two further elements the trial court found wanting in the GM relate to the tapered end portion of plaintiff's tap. One element describes the tapered portion and the second element provides for a continuous thread between the tapered portion and the cylindrical portion of the tap. Once again, these elements are clearly disclosed by the GM, properly construed. Claim 1 of the GM calls for an "uninterrupted thread along the circumference of [the tap's] thread cross section (b, c, d) * * *." The required reference to "(b, c, d)" on the GM drawings shows that the thread cross section of the GM is indeed tapered and confirms that the thread is continuous between the tapered and the cylindrical portions of the thread cross section. Plaintiff does not contest the fact that these two elements are contained in the GM if reference may be had to the specifications and drawings.

The final element found wanting in the GM by the trial court relates to making the tap of appropriate size for the drilled hole it is going to tap, "the extreme pitch diameter of the thread on the cylindrical portion being generally of the order of the diameter of the cylindrical surface to be threaded." What this means is that the tap should not be used in a hole the size of the maximum crest diameter since it would not form any threads nor should it be used in a hole as small as the root diameter since there would be no space for the metal displaced from the walls of the hole to flow; rather it should be used in a hole about midway between the two. The GM drawing, Fig. 4, shows a pitch diameter slightly larger than the hole to be tapped, but appears to be "of the

order of the diameter of the hole." In any event, the GM specification contemplates that the pitch diameter be adequate so that metal may be displaced inwardly. Furthermore, we think it would be obvious to one using such a tap that it would have to be used in a hole small enough to allow the swaging lobes to come in contact with the metal to be swaged and large enough to permit a space between the inner surface of the metal and the root of the tap into which excess metal can be displaced as the thread is formed.

Thus we conclude that all claims of the plaintiff's reissue patent can be found in the Gebrauchsmuster Patent 1,455,626 which was issued more than one year prior to plaintiff's application for its patent. We hold that the claims of plaintiff's Patent Re. 24,572 are invalid because of anticipation by the 1939 GM.

The district court also erred in concluding that the reissue patent was not invalid for obviousness in view of the prior art under 35 U.S.C.A. §103.[2] This error resulted from the court's error of law as to the interpretation of the Gebrauchsmuster. Consistent with its interpretation of the GM for purposes of anticipation, it held that only the claims of the GM could be referred to on the obviousness issue. We have held that, on the facts of this case, the specifications as well as the claims are part

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[2] "§103. Conditions for patentability; non-obvious subject matter

"A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made."

of the prior art. In view of this prior art, we hold that the reissue patent is also invalid under Section 103.

Defendants urged several other grounds for the invalidity of the reissue patent in the trial court. All were rejected. Among these grounds were contentions that the reissue patent was anticipated by certain German literature and by various sales of taps in this country and that the reissue was obvious in light of the prior art taught by such literature and earlier tools. Since we have concluded that the reissue patent is invalid under the GM prior art, we need not reach these other contentions.

PATENT RE 24,572 — INFRINGEMENT

Since we have concluded that the reissue patent is invalid, it follows that the district court's determination that defendant's tap infringes it must be reversed. An invalid patent cannot be infringed. Scovill Mfg. Co. v. Goldblatt Bros., Inc., 7 Cir., 362 F. 2d 777, 781 and cases cited therein.

We note, however, that had we found the reissue patent valid, the finding of infringement would have been affirmed. The district court found infringement under the doctrine of equivalents. Graver Tank & Mfg. Co., Inc. v. Linde Air Products Co., 339 U.S. 605, 70 S. Ct. 854, 94 L. Ed. 1097 (1950). The finding of equivalency is one of fact and will not be set aside unless clearly erroneous within the meaning of Rule 52(a), Federal Rules of Civil Procedure. *Graver Tank, supra* at 609-610, 70 S. Ct. 854. We conclude that the finding here is supported by the record and defendants do not seriously contend that it is not.

However, defendants maintain that there is a file wrapper estoppel in the instant case which precludes

the application of the doctrine of equivalency. The district court concluded there was no such estoppel here. It appears to us that the court reviewed both relevant files and applied the correct law in finding no estoppel. After careful consideration, we are not persuaded by defendants' contentions to the contrary.

PATENT NO. 3,050,755 — VALIDITY

The district court held plaintiff's '755 method patent invalid for plaintiff's own sales and the consequent public use more than one year prior to the application for patent. 35 U.S.C.A. §102(b), *supra*. It found that when plaintiff's tap is used in the recommended manner, it inherently practices the '755 method. Plaintiff's taps were on sale and in public use in June, 1956. The application which resulted in the '755 patent was not filed until July 23, 1958.

Plaintiff concedes that "the District Court's holding of invalidity of the '755 patent because of such sales * * * is correct, *unless* the '755 patent is entitled to the April 3, 1956 filing date of the first filed swaging tap application." (Emphasis added.) It claims the earlier filing date by virtue of 35 U.S.C.A. §120[3] which provides that an application for an invention shall have the benefit of the filing date of an earlier application under certain circumstances.

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[3] §120. Benefit of earlier filing date in the United States

"An application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States by the same inventor shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application."

To come within the purview of Section 120, the later application must 1) disclose an invention disclosed in the manner provided in 35 U.S.C.A. §112 in an earlier application; 2) be by the same inventor; 3) be filed before the patenting of the earlier application; and 4) contain a specific reference to the earlier application. Technicon Instruments Corp. v. Coleman Instruments Corp., 7 Cir., 385 F. 2d 391, 393 (1967).

The district court found the first condition was not satisfied in the instant case for the reason that the earlier application did not disclose the invention in the manner required by Section 112, which, in relevant part, provides: "The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention."

The disclosure of the method invention in the first filed swaging tap application of April, 1965, consisted of a single paragraph which contained essentially a description of how the tap was to be used rather than a description of a method of forming threads. This method was set out in detail for the first time in the 1958 method patent application and covered seven paragraphs in addition to the one contained in the 1956 application. The district court held that when these descriptions are compared, "it becomes reasonably clear that the disclosure of the original patent does not satisfy the requirements of §112."

Plaintiff, however, asserts that the earlier application did disclose the method for the reason that "the mere disclosure of a device which inherently performs a function in a patent application also by necessity discloses that function * * *." It relies mainly on Technicon Instruments Corp. v. Coleman Instruments, Inc., 255 F. Supp. 630, 640-641 (N.D. Ill. 1966), aff'd., 7 Cir., 385 F. 2d 391, 393 (1967). Other cases may be cited for this same general proposition.[4]

However, these cases do not support plaintiff's contention that the '755 patent is entitled to the filing date of the first filed tap application. They deal with a basically different situation. They are relevant when explanatory material is added to a pending application to clarify the invention claimed in such application. Typically they deal with amendments to applications which have been rejected under 35 U.S.C.A. §132.[5] That section provides

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[4] Weller Mfg. Co. v. Wen Products, Inc., 7 Cir., 231 F. 2d 795, 799 (1956); Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 7 Cir., 281 F. 2d 252, 257 (1960); Illinois Tool Works, Inc. v. Continental Can Company, Inc., 273 F. Supp. 94, 101-104, aff'd, 7 Cir., 397 F. 2d 517, 520 (1968); Oelbaum v. Lovable Co., 211 F. Supp. 594, 602 (S.D.N.Y. 1962); Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Systems Co., 169 F. Supp. 1, 21 (E.D. Pa. 1958); Interchemical Corp. v. Watson, 145 F. Supp. 179, 182, aff'd. 102 U.S. App. D.C. 149, 251 F. 2d 390 (1958). See also Marconi Wireless Telegraph Co. v. United States, 320 U.S. 1, 34, 63 S. Ct. 1393, 87 L. Ed. 1731 (1942). But *ef.* Schriber-Schroth Co. v. Cleveland Trust Co., 305 U.S. 47, 58-59, 59 S. Ct. 8, 83 L. Ed. 34 (1938).

[5] "§132. Notice of rejection; reexamination

"Whenever, on examination, any claim for a patent is rejected, or any objection or requirement made, the Commissioner shall notify the applicant thereof, stating the reasons for such rejection, or objection or requirement, together with such information and reference as may be useful in judging of the propriety of continuing the prosecution of his application; and if after receiving such notice, the applicant persists in his claim for a patent, with or without amendment, the application shall be reexamined. No amendment shall introduce new matter into the disclosure of the invention."

for reexamination of applications after amendment but states: "No amendment shall introduce new matter into the disclosure of the invention."

In essence, the issue under consideration in the instant case is whether there was *adequate disclosure* in the original tool application to support the separate and distinct method invention. Here plaintiff does not seek merely the right to clarify overly broad or ambiguous claims. Rather, it seeks to use the concept of "inherent disclosure" in a manner which will result in extending its monopoly beyond the limits of the originally claimed invention.

We conclude, under the record before us, that the inherent disclosure relied upon by plaintiff is not adequate to meet the disclosure requirements of Section 112, *supra.* It necessarily follows that the requirements of Section 120, *supra,* have not been met.

Accordingly, we hold the finding of the district court that plaintiff's method patent is not entitled to the April, 1956, filing date of the first filed swaging tap application is not clearly erroneous. We hold that plaintiff's Patent No. 3,050,755 is invalid by reason of its prior public use and plaintiff's sales in June, 1956.

PATENT NO. 3,050,755 — INFRINGEMENT

Again we note that an invalid patent cannot be infringed and hold the invalid method patent is for that reason not infringed by defendants' tap. *Scovill Mfg., supra.*

However, if the method patent were valid, defendants' tap would infringe. The district court so held applying the doctrine of equivalency. As stated above, the find-

ing of equivalency is one of fact and our review is limited by Rule 52(a), Federal Rules of Civil Procedure.

Claims 1 and 2 of the method patent describe a tap capable of applying pressure at "pressure areas * * * equally circumferentially spaced" on the cylindrical surface being swaged. The district court rejected defendants' contention that since their tap is incapable of applying such pressure, it cannot infringe. The court concluded that the only reason for this was the presence on defendants' tap of a groove which caused its lobes to be unequally spaced. This, the court found, made no difference in the operation of defendants' tap which would prevent it from infringing plaintiff's method patent. This conclusion is amply supported by testimony of plaintiff's expert which the court found uncontradicted by any testimony offered by defendants.

In the trial court, defendants further urged that Claims 1 and 3 require a tap whose threads along the whole of the cylindrical section apply equal pressure intensity as that applied by the last pressure area on the tapered lead section of the tap. They assert their tap is incapable of applying pressure in this manner since only the first lobe of its cylindrical section does any work.

The district court held that defendants were incorrectly interpreting the language of the claim. It held that when the claims were read in light of the specifications, they meant "that the pressure areas in the cylindrical section are equal in size and in pressure-applying *ability* as the last lobe on the tapered section * * * not * * * that all the threads on the cylindrical section actually apply the same pressure as the last lobe on the tapered section." We agree that this is the correct interpretation of the claim language. When the claims of the method patent

are so interpreted, the court's finding of infringement by equivalency is not clearly erroneous.

DEFENDANTS' COUNTERCLAIM — ALLEGED ANTITRUST VIOLATIONS

Defendants' counterclaim to plaintiff's infringement suit charges two violations of federal antitrust laws. First, defendants contend that plaintiff violated Section 2 of the Sherman Act by "illegal procurement and enforcement of patents." They rely upon Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965). That reliance is misplaced in this case. *Walker* decided a purely legal issue, as the following passages from the opinion indicate:

> "We have concluded that the enforcement of a patent procured by fraud on the Patent Office may be violative of §2 of the Sherman Act provided the other elements necessary to a §2 case are present. (*Id.* at 174, 86 S. Ct. at 349.)
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> * * *
>
> "As the case reaches us, the allegations * * * as to the fraud practiced * * * [by the patentee] * * * are taken as true. (*Id.* at 174-175, 86 S.Ct. at 349.)
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> * * *
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> "* * * It must be remembered that we deal only with a special class of patents, *i.e.*, those procured by intentional fraud. (*Id.* at 176, 86 S. Ct. at 350.)
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> * * *
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> "* * * [The patentee's]good faith would furnish a complete defense. This includes an honest mistake as to the effect of prior installation upon patentability — so-called 'technical fraud.' " (*Id.* at 177, 86 S. Ct. at 350.)

Thus to prevail here, defendants must prove, what was assumed as true in *Walker,* that any misstatements by plaintiff in its patent applications were the products of intentional fraud and not good faith mistake. *See generally,* Antitrust Developments — 1955-1968 — Supplement to Report of the Attorney General's National Committee to Study the Antitrust Laws, 1955, pp. 167-69 (1968).

The district court specifically found that defendants had not met their burden of proving fraud on the patent office by clear and convincing evidence as required in Armour & Co. v. Wilson & Co., 7 Cir., 274 F. 2d 143, 148 (1960). Our examination of the record leads us to conclude that such finding is not clearly erroneous and thus we accept it. Accordingly, the conclusion of the district court that this claim of antitrust violation is without merit should be approved.

Defendants next urge that even if all of plaintiff's patents were valid, plaintiff would be guilty of violations of Sections 1 and 2 of the Sherman Act for the reason that they have misused their patents to extend the patent monopoly beyond the scope permitted by the Constitution and the Congress.

It is clear that the patent monopoly is one strictly limited and that contracts and agreements extending its scope may violate federal antitrust laws. United States v. Univis Lens Co., Inc., 316 U.S. 241, 250, 62 S. Ct. 1088, 86 L. Ed. 1408 (1942). As stated by the Supreme Court, United States v. Masonite Corp., 316 U.S. 265, 277, 62 S. Ct. 1070, 1077, 86 L. Ed. 1461 (1942): "The owner of a patent cannot extend his statutory grant by contract or agreement. A patent affords no immunity for a monopoly not fairly or plainly within the grant. * * * [I]t

will not do to say that since the patentee has the power to refuse a license, he has the lesser power to license on his own conditions."

Defendants assert that plaintiff has "blanketed" 75% of the swaging tap market and "smothered most competition" by means of sales and licensing agreements with its competitors. The licensing agreements give competitors the right to make and sell swaging taps. The sales agreements give other competitors the right to buy taps and to become licensees at their option. Each agreement contains irrevocable covenants binding the purchaser or licensee never to contest the validity of plaintiff's patents, even if the agreement is terminated. Defendants contend that this network effectively excludes them from 75% of the swaging tap market because no swaging tap user bound not to contest the validity of plaintiff's taps can afford to risk the possibility of an infringement suit by buying swaging taps from defendants.

The district court found no merit in this claim saying, *inter alia,* "* * * there has been no sufficient showing of an illegal combination to restrain trade. By dint of its valid patent Re. 24,572, the plaintiffs were entitled to the limited protection afforded under the patent laws. This included the right to license others to manufacture the patented tap. It is inappropriate to denominate this conduct as 'conspiratory' or 'monopolistic'."

In this rather summary fashion the trial court brushed aside the charge that plaintiff had violated Sections 1 and 2 of the Sherman Act, finding that United States v. Masonite Corp., 316 U.S. 265, 62 S. Ct. 1070, 86 L. Ed. 1461 (1942), was not applicable.

While it is true that a valid patent does afford some "limited protection," including "the right to license

others to manufacture the patented tap," this is no answer to the thrust of defendants' contention that the licensor may not thereby forever preclude the licensee from challenging the validity of the patent. By requiring such a condition in the license or sales agreement, plaintiff may have placed itself in the position of unlawfully exceeding the protected area.

Further, subsequent to the judgment of the district court under consideration here, the Supreme Court in Lear, Inc. v. Adkins, 395 U.S. 653 (June 16, 1969), at 668-671, 89 S. Ct. 1902, 23 L. Ed. 2d 610, overruled the holding of Automatic Radio Manufacturing Co., Inc. v. Hazeltine Research, Inc., 339 U.S. 827, 836, 70 S. Ct. 894, 94 L. Ed. 1312 (1950), insofar as it invoked a legally implied estoppel to deny a licensee the right to challenge the validity of his licensor's patent in a suit for the collection of royalties. The Court's decision is rationalized almost exclusively in terms of "the strong federal policy favoring free competition in ideas which do not merit patent protection." *Id.* 395 U.S. at 656, 89 S. Ct. at 1904.

The Court concluded that even a good-faith patentee-licensor should not be given the benefit of the estoppel doctrine since even in such cases the strong public policy reflected in the "federal law [that] requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent" overrides the equities of the licensor. The Court said: "Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's dis-

covery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification." *Id.* at 670, 89 S. Ct. at 1911.

The Court then went on to hold that the licensee would not be required to pay royalties accruing before an adjudication of invalidity even though that is what the express contract of the parties provided. Again the Court found such a result might frustrate federal policies favoring free competition. *Id.* at 673-674, 89 S. Ct. 1902.

From all this we can only conclude that the right to estop licensees from challenging a patent is not part of the "limited protection" afforded by the patent monopoly. Furthermore, the reason is that it creates a danger of unwarranted monopolization. Such danger may be even greater here than in the usual licensee-estoppel case for the reason that in the instant case the licensor sought to create an irrevocable estoppel, not one merely extending during the life of the licenses and sales agreements.

The parties did not address themselves to the relevance, if any, of *Lear* in the present appeal, and, of course, it could not have been considered by the district court. Under these circumstances, we feel it should be first presented to the trial court for its consideration.

In light of our holding that Patent Re. 24,572 is invalid and the recent Supreme Court decision in *Lear,* we have concluded that the portion of the judgment below dismissing defendants' antitrust counterclaim should be vacated and the case remanded for reconsideration of that issue.

OTHER ISSUES

In addition to its infringement claims, plaintiff also charges defendants with appropriation of its trade

secrets. The district court carefully applied the governing Wisconsin law to the unfair competition claim by reason of its diversity jurisdiction. Erie R. R. v. Tompkins, 304 U.S. 64, 58 S. Ct. 817, 82 L. Ed. 1188, 114 A.L.R. 1487 (1938). It concluded that while the information disclosed by plaintiff constituted trade secrets, no confidential relationship existed between the parties. Such a relationship is required to state a cause of action under Wisconsin law. Abbott Laboratories v. Norse Chemical Corp., 33 Wis. 2d 445, 147 N.W. 2d 529 (1967).

The record fully supports this finding and the court's conclusion that plaintiff did not sustain its burden of proving defendants appropriated trade secrets. The court noted plaintiff took no adequate precautions to protect its trade secrets from the defendants whom it should have regarded as potential competitors in the tap manufacturing business. The court specifically found there was not sufficient testimony to establish the existence of a joint venture which plaintiff now urges as the basis for the required confidential relationship. We agree and hold defendants are not liable for appropriation of plaintiff's trade secrets.

Plaintiff claims the trial court erred in dismissing Van Vleet as an individual defendant and in denying its request for treble damages and attorneys' fees. Defendants, on appeal, seek an award of their attorneys' fees.

We have carefully considered these issues and the record pertinent thereto and find that each of such claims is without merit. The trial court did not err in so ruling and we do not find adequate grounds for making an award of attorneys' fees to defendants.

In sum, on consideration of the foregoing, we conclude:

In No. 17343, that part of the judgment of the district court holding Patent Re. 24,572 to be valid and infringed is reversed; that part of the judgment dismissing defendants' antitrust counterclaim is vacated and set aside and this cause is ordered remanded to the district court for a reconsideration of such counterclaim; and defendants' claim for attorneys' fees is denied.

In No. 17344, the judgment of the district court is affirmed.

Reversed in part. Vacated in part and remanded. Affirmed in part.

APPENDIX D.

The BESLY-WELLES CORPORATION, a corporation of Delaware, and Sellew Corporation, a corporation of Illinois, Plaintiffs,

v.

BALAX, INC., a corporation of Wisconsin, and John Van Vleet, an individual, Defendants.

No. 64-C-170.

United States District Court
E. D. Wisconsin

Sept. 9, 1968.

* * *

OPINION

MYRON L. GORDON, District Judge.

The plaintiffs have charged the defendants with infringement of U. S. Patents Re. 24,572 and 3,050,755. In addition, the defendants are charged with appropriation and use of plaintiffs' trade secrets. The original plaintiff was Besly-Welles Corporation, an Illinois corporation. The defendants are Balax, Inc., a Wisconsin corporation, and John M. Van Vleet, an individual and a resident of Wisconsin. The court has jurisdiction under the patent laws of the United States.

After the suit was commenced, the assets of Besly-Welles were acquired by the Bendix Corporation, and the name was changed to Sellew Corporation. A new

corporation, Besly-Welles, was also organized under the laws of the state of Delaware; all of the assets and patents of Sellew were transferred to this new company. The court will refer to the plaintiffs collectively as Besly.

The defendants have alleged, in addition to non-infringement of each patent, that both are invalid for several reasons. The individual liability of Van Vleet is denied. The defendants also have entered a counterclaim charging the plaintiffs with violation of the antitrust laws.

Both patents in suit relate to a device known as a fluteless swaging tap. The reissue patent (Re. 24,572) covers the tool itself and the 3,050,755 patent is concerned with the method performed by the tool. The tools involved in this litigation are used to form internal threads in metal. A common use would be to form the internal threads in a nut so that a bolt may be inserted. Prior to the development of the particular type of tool in suit, devices known as cutting taps were used to carry out this function.

The cutting or fluted type of tap actually removes portions of the metal to form the threads, whereas the taps in suit "swage" or displace the metal surrounding the hole into which the tap has been inserted. This method is said to be more economical and easier to perform. The taps have a longer life than cutting taps and there are no metal chips to remove when the job is completed.

Patent Re. 24,572 is a reissue of U.S. Patent 2,807,813. This tap has a shank and a threaded section. The threaded section has a cylindrical portion where the threads are substantially the same diameter and a tapered end portion where the threads are of reduced diameter. The threads have high spots or lobes with relieved areas in between these high spots. It is the lobes that do the actual

swaging work since the relieved areas are out of contact with the material being formed. When used, the tool is rotated into a hole and the lobes force their way through the hole. The displaced metal takes the shape of the tap threads.

The '755 patent will also be referred to by the court as the method patent. The method of this patent is performed when the tool of the reissue patent is used in the prescribed manner. The method claims describe the application of pressure from the tap threads and the movement of the metal as it conforms its shape to that of the tap thread.

PRESUMPTION OF VALIDITY

Every patent is presumed valid. The burden of establishing the invalidity of a patent rests with the party asserting it. 35 U.S.C. §282. This statutory presumption "is only overcome by clear and cogent evidence of invalidity". Ortman v. Maass, 391 F. 2d 677, 681 (7th Cir. 1968); Leach v. Rockwood & Co., 404 F. 2d 652 (7th Cir. 1968). This presumption of validity has been attributed to the technical and legal expertise of the patent office. See Technicon Instruments Corp. v. Coleman Instruments, Inc., 255 F. Supp. 630 (N.D. Ill. 1966). However, this presumption can be weakened by introduction of prior art which was not before the patent office. Leach v. Badger Northland, Inc., 385 F. 2d 193 (7th Cir. 1967); A R Inc. v. Electro-Voice, Inc., 311 F. 2d 508, 512 (7th Cir. 1962).

IS PATENT Re. 24,572 VALID?

The defendants attack the validity of the reissue patent under 35 U.S.C. §102(b).

"§102. Conditions for patentability; novelty and loss of right to patent

A person shall be entitled to a patent unless —

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or * * *."

The defendants have cited five prior references which are alleged to be anticipatory under the above section:

1. Three are German references, and they concern a tap produced by Ernst Reime. They are the Gebrauchsmuster (hereinafter referred to as GM), the Klepzigs Anzeiger and the Noris catalogue. It is claimed that the German references are anticipatory because the invention was patented and described in a printed publication in a foreign country.

2. The other two references are drawings and taps produced from those drawings by Pratt & Whitney and Detroit Tap & Tool. The defendants claim that the tools made by these two companies were in public use or on sale more than one year prior to the application for the reissue patent.

Anticipation must be shown by clear and convincing evidence. The burden is on the party seeking to have the patent declared invalid. Illinois Tool Works, Inc. v. Continental Can Company, 273 F. Supp. 94 (N.D. Ill. 1967), affirmed at 397 F. 2d 517 (7th Cir. 1968). In the *Illinois Tool Works* Case, the trial court stated that the test of anticipation is framed in terms of identity between the prior device and the patented invention; that the disclosure in the prior art must be of a thing substantially identical with the claimed invention. The defense

of anticipation was considered in the recent cases of Shea v. Blaw-Knox Co., 388 F. 2d 761 (7th Cir. 1968) and Amphenol Corporation v. General Time Corporation, 397 F. 2d 431 (7th Cir. 1968). In the latter case, the court said:

> "As a rule, in order to have anticipation, all of the elements of the patented device or their equivalents must be found in a single prior device. Firestone v. Aluminum Co. of America, 6 Cir. 1960, 285 F. 2d 928, 930; Allied Wheel Products v. Rude, 6 Cir., 1953, 206 F. 2d 752, 760. But it is sufficient if the general aspects are the same and the difference in minor matters is only such as would suggest itself to one of ordinary skill in the art. I Walker on Patents (Deller, 2d ed.) §77 at page 363, citing Model Bottling Machinery Co. v. Anheuser-Busch Brewing Assn., 8 Cir., 1911, 190 F. 573, 579, cert. den. 223 U.S. 732, 32 S. Ct. 528, 56 L. Ed. 634."

In the *Illinois Tool Works* Case, the district court stated that it was not proper to combine various prior art references with regard to the defense of anticipation. As that court said on page 106:

> "A patent or publication 'is to be measured as anticipatory, not by what might be made out of it, but by what it clearly and definitely discloses.' "

The court will therefore consider each of the prior references cited separately to see if any of them anticipates the reissue patent's subject matter.

The Gebrauchsmuster is a lesser type of German patent issued for petty or useful models and designs. There is no requirement of non-obviousness in order to obtain a GM, and its purpose is to enable the applicant to obtain speedy protection for a new article. After registration, the specifications and claims become available to the public. See Reeves Brothers, Inc. v. U.S. Lami-

nating Corp., 157 USPQ 235 (E.D.N.Y. 1968). It has been stated that a GM can be used as references as prior patents, but not as prior printed publications. Manual of Patent Examining Procedure, §901.05(b), 3rd ed. (Rev. Oct. 14, 1967). Since a GM qualifies for anticipation only as a foreign patent, its disclosure is limited to its claims, and its specifications cannot be used. The *Reeves* court discusses several cases in regard to the anticipatory effect of a GM and concludes as follows on page 250:

> "[16] The Court concludes that for anticipation purposes under Section 102 a GM, which is a foreign patent but not a printed publication, is a reference only for what is patented, i.e., for what it claims and not for what is disclosed in its specifications. This is consistent with the language of Section 102(a) and (b) which juxtaposes 'patented * * * in a foreign country' with the phrase 'described in a printed publication in * * * a foreign country'. To permit the effect of such a foreign patent to extend beyond what is actually patented, would appear to indirectly effectuate a form of use and knowledge in a foreign country which is not statutorily allowable as an anticipatory reference to an American patent."

For a contrary position the defendants cite the case of American Infra-Red Radiant Co., Inc. v. Lambert Industries, Inc., 360 F. 2d 977 (8th Cir. 1966); there the court used the GM as a reference for what was disclosed in its specifications as well as its claims. However, in that case, the GM was being used to invalidate a patent under 35 U.S.C. §102(d) which relates to the invention having been patented by the applicant in a foreign country more than one year before filing for application in the United States. The court stated that if an applicant can use his foreign patent to obtain the benefit of an earlier filing date to establish its priority under 35 U.S.C. §119, the

applicant should also be subject to the disadvantages imposed under §102(d). This court concludes that the holding of the *Infra-Red Court* as regards use of a GM as a prior reference is not applicable to the case at bar. The Reime GM shall be used by this court only for what is disclosed in its claims.

Claim 1 is the only real claim of the GM. Claim 2 incorporates by cross reference "the shape, disposition and arrangement reflected by the drawing and the specification." However, to allow such a cross reference would defeat the limited use which this court has concluded must be made of the GM.

Plaintiffs' expert, Mr. Fishleigh, compared claim 5 of the reissue patent with claim 1 of the GM. He testified and illustrated by a chart (PX 195) that elements 1, 2, 1a and 2a of claim 5 are not found in the GM. The court concludes that the test of substantial identity between the GM's subject matter and the subject matter of the reissue patent has not been met by clear and convincing evidence.

The first of the German publications is the Noris catalogue. This was put out by Ernst Reime. In regard to its disclosures, Mr. Fishleigh indicated with the same chart (PX 195) that the above elements of claim 5 are also not disclosed by the Noris catalogue.

The second German publication, the Klepzigs Anzeiger, contains an article about the Reime tap. Mr. Fishleigh testified that it had exactly the same disclosures as the Noris catalogue except for one element; he stated that element 1a of claim 5 was disclosed. This says that the pitch diameter of the thread on the cylindrical portion of tool is generally the same as the hole size into which the tool will be turned.

The defendants' expert, Mr. Spangenberg, was of the opinion that the foreign references did anticipate the subject matter of the reissue patent. However, his testimony shows that he considered all three references together. His position on each of the references separately is not known.

The defendants also offered the testimony of Mr. Gartner, an engineer for the Reime company, but the court is of the opinion that his testimony goes more to the question of obviousness under 35 U.S.C. §103 than to the question of anticipation. It does not satisfy the standard of anticipation but could be used for what a person ordinarily skilled in the art would make out of the German references. This will be discussed later in this opinion.

The court concludes that the defendants have not met their burden of proof in showing that the GM, the Klepzigs Anzeiger or the Noris catalogue anticipate the subject matter of the reissue patent.

The defendants also rely on alleged prior use or sale of tools made by Pratt & Whitney and Detroit Tap as being anticipation of the reissue patent. It is claimed that both companies made and supplied swaging tools to Fisher Body Division of General Motors in 1950. This is more than one year prior to the application of the reissue patent which is entitled to the application date of patent 2,807,813 of which it is a reissue. The application for the parent patent was April 3, 1956.

In conjunction with the Pratt & Whitney tools, two documents are in evidence. These documents represent the drawings from which the tools manufactured in 1950 were made (DX 100 and 101). Also, two physical exhibits (DX 102 and 103) allegedly represent tools made

by Pratt & Whitney from these drawings. However, it is not clear from this record that these two tools were actually made in 1950.

Regarding Detroit Tap, there are eight drawings in evidence (DX 264A, 265A, 266A, 267A, 268A, 269A, 270A and 271A). There are no physical exhibits which represent taps made by Detroit Tap in 1950, but the company at a later date made a tap which it is claimed was made pursuant to the last drawing in the series of eight (physical exhibit DX 272). This tap was supplied by Detroit Tap to both parties. In addition, plaintiffs' expert testified that he made taps pursuant to the above drawings (DX 100, 101 and 271A) and conducted experiments with them.

The plaintiffs characterize what Pratt & Whitney and also Detroit Tap were doing in 1950 as experimental. They maintain this because a relatively few orders of taps were sent to Fisher Body. These taps did not work out, according to the plaintiffs, and Fisher Body went back to using cutting taps. The defendants argue that both concerns were in the business of manufacturing and selling taps and that they were not experimenting.

In my opinion, Fisher Body was experimenting with swaging taps. The taps were sent to the "process development department" of Fisher Body by Pratt & Whitney and Detroit Tap. They were supplied only over a ten month period in 1950, and Detroit Tap furnished eight different models. After this, Fisher Body went back to using cutting taps.

While I believe that Fisher Body was experimenting with swaging taps, it does not necessarily follow that what Pratt & Whitney and Detroit Tap were doing was also

experimental. Referring to sub-section (b) of the statute, the court in George R. Churchill Co. v. American Buff Company, 365 F. 2d 129, 134 (7th Cir. 1966) stated:

> "A use involving public disclosure if not *solely* to test the qualities of the invention, and for the purpose of experiment, does not avoid the bar of the statute."

The court in Cloud v. Standard Packaging Corp., 376 F. 2d 384, 390 (7th Cir. 1967) defined public use as follows:

> "Except for purely experimental use, 'Public use may properly be defined as any utilization of the invention by one other than the inventor where the user is under no limitation, restriction or obligation of secrecy to the inventor.' "

A single public use is sufficient to render a patent invalid and the burden is upon the one asserting invalidity by prior public use to establish it by "clear, cogent and satisfactory proof to remove all reasonable doubt." McCullough Tool Company v. Wells Surveys, Inc., 343 F. 2d 381, 394 (10th Cir. 1965). See also Devex Corp. v. General Motors Corp., 321 F. 2d 234 (7th Cir. 1963).

The defendants argue that the experimental use doctrine applies only to the inventor and cite in support of this position Monolith Portland Midwest Company v. Kaiser Aluminum Corp., 267 F. Supp. 726, 785 (S.D. Calif. 1967). The *Monolith* court stated that the doctrine "applies to experiments conducted by the inventor to enable him to perfect his inventions before applying for a patent." However, this doctrine has been applied to those other than the inventor. See Kraft Foods Company v. Walther Dairy Products, 118 F. Supp. 1 (W.D. Wis. 1954).

I believe that the experimental use doctrine should be applied to what both companies were doing. During the course of their dealings with Fisher Body in 1950, Detroit Tap supplied them with eight different models of swaging taps. Fisher Body apparently did not find that any of the tools were suitable for their purposes since they went back to cutting taps. The Pratt & Whitney orders were characterized as experimental (although the defendants state that this was to distinguish them from wholesale production). In addition, both of these concerns now buy their swaging tap requirements from the parties to this litigation. It is reasonable to conclude that both Pratt & Whitney and Detroit Tap were attempting to develop an operable swaging tap of commercial value. They failed.

Furthermore, the evidence establishes that the taps of both of these concerns do not measure up to the Besly tap. Mr. Fishleigh made and tested taps corresponding to the drawings of Pratt & Whitney and Detroit Tap. The results of his tests indicate that the Pratt & Whitney tap required two to three times the torque of the present Besly and Balax taps. The Detroit Tap tools required three to four times the torque. Mr. Van Vleet testified that a five percent difference in torque would be a difference he would be proud to obtain. Also, the prior taps would not work in stainless steel, which is a common material for swaging tap operation. It was Mr. Fishleigh's conclusion that the taps made in accordance with the drawings were not suitable for commercial use.

The defendants have not established by clear and convincing evidence that there was public use or sale under §102(b).

As another attack on the validity of the reissue patent, the defendants rely on 35 U.S.C. §103:

> "§103. Conditions for patentability; non-obvious subject matter
>
> A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made."

Whereas §102 is concerned with the novelty of the invention, §103 offers a more practical test of patentability. The determination of "non-obviousness" is made after establishing the scope and content of the prior art, the differences between the prior art and the claims in issue, and the level of ordinary skill in the pertinent art. Graham v. John Deere of Kansas City, 383 U.S. 1, 12, 86 S. Ct. 684, 15 L. Ed. 2d 545 (1966). This test for obviousness has been applied in many recent decisions. Ortman v. Maass, 391 F. 2d 677, 680 (7th Cir. 1968); National Dairy Products Corp. v. Borden Co., 394 F. 2d 887, 889 (7th Cir. 1968); Amphenol Corporation v. General Time Corporation, 397 F.2d 431 (7th Cir. 1968); U.S. Gypsum Co. v. National Gypsum Co., 387 F. 2d 799 (7th Cir. 1967); Technicon Instruments Corp. v. Coleman Instruments, Inc., 255 F. Supp. 630 (N.D. Ill. 1966).

The court has determined that the references cited by the defendants do not anticipate the reissue patent under §102, but this does not preclude their use under §103. Monroe Auto Equipment Company v. Heckethorn Man-

ufacturing & Supply Company, 332 F. 2d 406 (6th Cir. 1964).

The defendants contend that the foreign references make the plaintiffs' tool obvious to one skilled in the art. For example, they maintain that anyone with such skill who looks at these references will see that the thread is of uniform depth throughout the circumference of the tap or that the lead portion is tapered.

The Noris catalogue (DX 203) at fig. 305 shows a "NORIS Machine taps 'No Shaving'." This tap is also discussed in the article in the Klepzigs Anzeiger and shown in fig. 3 of that publication (DX 201 and the translation DX 202). When asked what the Noris drawing disclosed to a person skilled in the art, Mr. Gartner replied, "Anybody who looks at this figure and knows anything about how threads are made sees from this figure how it operates." (tr. 774).

The defendants further argue that for the tap to enter the material to be threaded as is indicated in the above references, the lead portion must be tapered. The defendants say that this fact can be easily ascertained by simply placing a straight-edge along the tap in the drawings. Mr. Spangenberg, on cross-examination, admitted that the publications do not have any written description that the tap has a tapered end section.

With regard to the GM and the issue of obviousness, it is only the claims that can be referred to. As was stated in the *Reeves* Case, supra, at page 251:

> "To treat the GM as a prior art reference under Section 103 for all it discloses would render the claims restriction of Section 102 meaningless because such treatment would accomplish indirectly what is proscribed directly. The legislative history of Section

> 103 makes clear that the term 'prior art' as used in that section refers only to 'what was known before as described in section 102' * * *. Therefore, the GM can be treated as a prior art reference under Section 103 only for what is claimed therein."

The specifications cannot be referred to, and, as was mentioned before, that is where Mr. Spangenberg targeted most of his testimony.

The testimony of neither Mr. Spangenberg nor Mr. Gartner convinces the court that the Besly patent is rendered invalid because the subject matter was allegedly obvious under the claims of the GM or the two German publications.

In Cōpease Manufacturing Company v. American Photocopy Equipment Company, 298 F. 2d 772, 781 (7th Cir. 1961), the court stated:

> "A novel combination of old elements which so cooperate as to produce a new and useful result or a substantial increase in efficiency is patentable."

One can overcome old elements by inventiveness. United States v. Adams, 383 U.S. 39, 86 S. Ct. 708, 15 L. Ed. 2d 572 (1966). It appears to the court that Besly has added inventiveness to whatever was disclosed in the Pratt & Whitney and Detroit Tap toois. The defendants have not convinced this court that the prior tools make the subject matter of the reissue patent obvious.

The commercial success of Besly tends to support the position that something novel was added to achieve the result they did. Nine prior arts were before the patent office, and there is no evidence that they achieved the commercial success that Besly and Balax did. The lack of commercial success of Pratt & Whitney and Detroit Tap has already been discussed. The plaintiffs have pre-

sented substantial evidence concerning the industrial acceptance of their tap. Stephen Cowell, a tool representative of the Ford Motor Company, stated that the Besly tap was new and revolutionary. Testimony of various tap manufacturers was offered to illustrate the advantages that the Besly swaging tap has over the cutting tap. The industrial acceptance of the swaging tap also indicates the long-felt need there was for a tap that functions more economically and efficiently.

It has been held that commercial success bolsters the validity of a patent. P & D Sales & Mfg. Company v. Winter, 334 F. 2d 830 (7th Cir. 1964). However, success in the market place is to be taken only as a secondary factor in evaluation of the patent's validity. This is because there may be factors other than the novelty or non-obviousness of the invention which result in commercial success. Dymo Industries, Inc. v. Com-Tech, Inc., 391 F. 2d 335 (7th Cir. 1968). The court is of the opinion that the commercial success of the Besly tap helps to illustrate the novelty, non-obviousness as well as the utility of the subject matter of the reissue patent.

U.S. PATENT No. 3,050,755 IS INVALID

The defendants also challenge the validity of the method patent under §102(b). They contend that the method was in public use for more than one year prior to the application for this patent. The defendants say that the method was in public use by means of sales to plaintiffs' customers which began June 13, 1956. The plaintiffs acknowledge that this is when sales of the Besly tap began. They also admit that the Besly tap will inherently practice the method claims of the '755 patent. Application for the method patent was not made until July 23, 1958. Plaintiffs' answer to this contention of the

defendants is that the method claims were first disclosed in patent 2,807,813 and the '755 patent should have the benefit of the former's filing date, which was April 3, 1956. The plaintiffs attempt to show that the initial disclosures in application for 2,807,813 were carried over to '755.

35 U.S.C. §120 reads as follows:

> "120. Benefit of earlier filing date in the United States
>
> An application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States by the same inventor shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application."

This section gives a patent application the benefit of an earlier filing date if three basic requirements are met: 1) co-pendency of application; 2) cross-reference to the earlier application; and 3) continuity of disclosure. Illinois Tool Works, Inc. v. Continental Can Company, 273 F. Supp. 94 (N.D. Ill. 1967).

The plaintiffs present the following sequence: On April 3, 1956, application 575,733 was filed (this resulted in patent 2,807,813). On September 26, 1957, application 686,521 was filed and this application was co-pending with the former application (686,521 was later abandoned). While the second application was still pending, application 750,377 was filed on July 23, 1958 (this re-

sulted in the '755 patent). The plaintiffs maintain that the entire disclosure of the first application was carried over to the second which, in turn, was carried over to the third.

The defendants' position is that the first application, 575,733, contains tap claims only. They say that the first disclosure of method claims was in the application for the method patent. As concerns the second application, 686,521, the defendants state that it initially did not contain method claims, but that such claims were added at the same time the method patent application was filed. They say that this is after 686,521 had received final rejection and just before it had been abandoned. The defendants base their position on Mr. Spangenberg's study of the pertinent applications and file wrappers. (DX 425, 426 and 427 illustrate his conclusions).

The threshold question is whether the 575,733 application discloses the method claims. If it does not, then the method patent is invalid because of prior public use under §102(b). As mentioned before, the tap disclosed in application 575,733 will inherently practice the method claims. The plaintiffs contend that the mere disclosure of a device which inherently performs a function in a patent application also by necessity discloses that function, and that the application may be amended later to recite the function without introducing prohibited new matter. Technicon Instruments Corp. v. Coleman Instruments, Inc., 255 F. Supp. 630 (N.D. Ill. 1966).

In addition to their contentions of no disclosure, the defendants also maintain that the method claims are merely a function of the tap itself and therefore cannot be patented. The defendant in the case of Waxham v. Smith, 294 U.S. 20, 55 S. Ct. 277, 79 L. Ed. 733 (1935)

argued a similar position, and the court said that a method is not to be rejected as functional merely because the specifications show a machine capable of using it. In the case at bar, on two different occasions, as pointed out by the plaintiffs, the patent office said that the method claims were to be separate from the claims regarding the tap itself.

The first of these occasions can be found in the 686,521 file wrapper (PX 108). On January 23, 1958, the patent office made a final rejection of the application. In response to that rejection, inventor Welles added claims 15 and 16, which were method claims. On page 24 of the file wrapper, the patent office states the following with regard to the newly added claims:

> "The newly proposed claims are drawn to a method and therefore are to an invention distinct from and independent of the invention previously claimed. Therefore the claims and the amendment cannot be considered by the examiner."

On the other occasion, Mr. Welles in his oath of May 28, 1958, during the prosecution of the reissue application (PX 68), stated that he intended the original patent to include method claims because one aspect of his invention was the material working method. The patent office, at page 27 of the file wrapper, recognized that the method claims would relate to a separate invention:

> "The several inventions are distinct each from the other because the method as defined by the claims of Group II can be practised by an apparatus differing materially from that defined by the claims of Group I."

These statements of the patent office indicate that the method claims do indeed embody a separate and patentable invention from that of the tap claims. The method

should not be rejected as merely functional and therefore unpatentable.

35 U.S.C. §120 states that the invention must be disclosed in the manner provided for in the first paragraph of §112, which reads as follows:

> "The specifications shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention."

The following description as to how the tool described is to be used is found in patent 2,807,813:

> "In practice, my improved form of fluteless tap is preferably introduced in a previously bored hole 19 of a workpiece indicated at 20, which hole is of substantially the same diameter as the final pitch diameter of the thread as indicated in Figures 1 and 5. The tap is then rotated so as to screw it into the hole. The internal threads are formed by displacing the metal with a swaging action, as illustrated in an exaggerated diagrammatic manner in Figure 5. It has been demonstrated that due to the novel form of the tap thread with its radial relief, an interior thread may be produced in the work with greater ease, and with much less torsional effort and generation of heat, than with a tap of corresponding size without the radial relief which characterizes my invention."

This language remains unchanged from that initially placed in the application (see PX 70 at pages 3 and 4). The method patent is known as the "method of forming threads by applying sliding pressure." When the description above and the whole of the 2,807, 813 patent are

compared with the method claims expressed in '755, it becomes reasonably clear that the disclosure of the original patent does not satisfy the requirements of §112.

Mr. Spangenberg in DX 430 points out portions of the '755 patent claims which are missing in previous applications. The patent office considered the method claims in application 686,521 and in the application for the reissue patent as independent of the invention claimed originally. Granted, disclosures in specifications are not to read identically with claim language, but considering all the above factors, it is difficult for the court to agree with the plaintiffs' position on the disclosures of the 2,807,813 patent.

The method patent cannot receive the earlier filing date by virtue of the operation of §120. Sales of plaintiffs' taps which would practice the method began June 13, 1956. The first satisfactory disclosure of method claims appeared more than one year after this, thus making the method in public use more than one year prior to application for the method patent. Therefore, I believe that the method patent is invalid.

The court has determined that the German references do not anticipate the tap under §102(b). It is even clearer that they do not anticipate the method. Likewise, it is the opinion of this court that the tools made by Pratt & Whitney and Detroit Tap do not anticipate the method. Here, the lack of their efficient operability bears even greater weight on the question of anticipation.

The court duplicates these findings on the question of obviousness under §103. None of the prior references relied on by the defendant establish by clear and convincing evidence that the method patent should be invalid for lack of non-obviousness.

THE BALAX TAP INFRINGES UPON THE CLAIMS OF Re. 24,572

The basic test for patent infringement was set down in Graver Tank & Mfg. Company, Inc. v. Linde Air Products Company, 339 U.S. 605, 70 S. Ct. 854, 94 L. Ed. 1097 (1950). The court stated that an accused device can infringe in two ways, either literally by falling clearly within the words of the claim, or by the doctrine of equivalents:

> " * * * 'if two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form or shape.' "

Graver, supra at 608, 70 S. Ct. at 856. See also Ortman v. Maass, 391 F. 2d 677, 682 (7th Cir. 1968).

In the instant case, the accused device does not fall clearly within the words of the claim. Therefore, the plaintiffs must make out a case for infringement pursuant to the doctrine of equivalents. Whether or not the accused device infringes upon the patented tap centers around one area of conflict — the Balax tool does not have a continuous thread. Claim 5 of the reissue patent states that the device is "A fluteless thread forming tool for threading a generally cylindrical surface, the tool having a cylindrical portion with a continuous thread * * * " The Balax tap does not have such a thread because of its axially extending groove.

The plaintiffs state that the word "continuous" is in the claims to distinguish a swaging tap from a cutting tap. Cutting taps have flutes which provide a cutting edge and a reservoir for chips from the metal being cut in addition to providing a means for carrying lubricant to the working area.

Mr. Fishleigh testified on the basis of his comparative tests between the Besly and Balax tools that the latter's groove does not perform the first two functions of a flute on a cutting tap; it does, however, perform the function of carrying lubricant to the working area. It does not have an effect on the working of the tap since it is found in the relieved area of the tap. Mr. Fishleigh's tests also negate any alleged advantages of this groove. It does not lower the torque nor does it prevent high pressure buildup underneath the tap. Mr. Fishleigh's test illustrates no difference in torque between the two taps and only a slight pressure buildup differential. Mr. Fishleigh concluded that the Balax tap does substantially the same work and achieves substantially the same result as the Besly tap.

It is the conclusion of this court that the Balax tap is the equivalent of the Besly tap; the groove's presence does not prevent infringement.

The doctrine of equivalents does not operate, however, where there is file wrapper estoppel. This occurs where the patentee in the course of prosecuting his application inserts limitations to escape a prior art. Technicon Instruments Corp. v. Coleman Instruments, Inc., 255 F. Supp. 630 (N.D. Ill. 1966). These limitations must be given recognition when infringement is charged. Simmons Company v. A. Brandwein & Company, 250 F. 2d 440 (7th Cir. 1957). An invention is construed not only in light of the claims, but also with reference to the file wrapper or prosecution history in the patent office. A narrowed claim can no longer cover what was previously eliminated. Graham v. John Deere Company of Kansas City, 383 U.S. 1, 86 S. Ct. 684, 15 L. Ed. 2d 545 (1966). See also Dixie Cup Company v. Paper Container Mfg. Company, 169 F. 2d 645 (7th Cir. 1948).

The defendants claim that file wrapper estoppel should apply to the word "continuous". They contend that this limitation was added to overcome rejections based on prior art. In addition, there is a conflict as to what is meant by the following language of claim 5:

> "* * * the threaded end portion being a noninterrupted continuation of the continuous thread on the cylindrical portion."

The defendants interpret this as meaning that there must be non-interrupted continuous threads on the threaded end portion of the tap. The plaintiffs interpret this as meaning that the end portion is threaded and is a continuation of the cylindrical portion which is also threaded, i. e., there is no interruption between the threads on the one and the threads on the other.

As concerns the word "continuous", the plaintiffs maintain that this word has always been in the claims of the original and the reissue patent; that it was not put in to overcome rejection based upon a prior art. An inspection of the file wrapper of patent 2,807,813 (PX 70) shows that this word has always been in the claims. Several amendments were made before allowance was given to this application, but none had to do with the threads' continuity. The attorney of record did, however, argue that the device was distinguished from some of the prior art because of its continuous thread. But these statements or arguments of an attorney during the prosecution of the patent application do not create file wrapper estoppel. This is because the patentee did not have to add the word "continuous" to his claims to overcome objections based on prior art. See University of Illinois Foundation v. Block Drug Company, 133 F. Supp. 580 (E. D. Ill. 1955); York Ice Machinery Corp. v. L. & K. Ice Corp., 6 F. Supp. 544 (S.D. N.Y. 1934).

In regard to the disputed claim language of claim 5, it was added to the reissue claims after final rejection. The attorney of record states that this amendatory change was suggested by the examiner. (PX 68 at page 42). A study of the file wrapper of the reissue patent does not show that any of the amendments, including the above, that were made to overcome objections based on prior art, involved the continuity of the thread or the fact that the threaded end portion is a "non-interrupted continuation of the continuous thread on the cylindrical portion." The rejections before final allowance were based on items such as full thread depth on the tapered end portion, uniformity of the thread depth on the cylindrical portion, and the relationship of the diameter of the surface to be threaded with the pitch diameter of the threads on the cylindrical portion.

As to the meaning of the language in claim 5, it should be noted that a patentee is his own lexicographer. The terms he uses should be interpreted to read upon the structure he describes in the patent. Canaan Products, Inc. v. Edward Don & Company, 388 F. 2d 540 (7th Cir. 1968). The defendants take their interpretation because certain prior art cited to the patent office, Barth no. 2,703,-419 and De Lapotterie no. 1,676,482, showed an interruption of threads in areas where no work was performed. As mentioned above, the court does not conclude that this language was added to overcome objections based on prior art, including the Barth and De Lapotterie patents. Since the defendants base their interpretation of the language of claim 5 on the assumption that file wrapper estoppel applies, their interpretation cannot be accepted.

It is the conclusion of this court that the language of claim 5 shall be given the interpretation the plaintiffs

place upon it. It is the further conclusion of this court that the doctrine of file wrapper estoppel is not applicable and therefore the claim language of the reissue patent does not have to be strictly construed. In light of what has been concluded by this court in regard to the doctrine of equivalents, the Balax tap does infringe upon the subject matter of the reissue patent.

PATENT 3,050,755 IS INFRINGED BY THE BALAX TAP

Even though the court has concluded that the method patent is invalid, an evaluation will be made as to its being infringed by the defendants' tap.

There are two areas where the defendants try to distinguish the operation of their device from the method claims. One is that the accused device does not have its areas of pressure application equally spaced exactly 90 degrees apart. The other results from an interpretation of the language of claims 1 and 3:

> "* * * the areas in the second series all being disposed in the same helical path and being substantially the same in size and pressure intensity and being substantially equal to the last such pressure area in the first series."

The reason the high spots on the Balax tap are unequally spaced is to make room for the groove. However, Mr. Fishleigh opined that the unequal spacing makes no difference in the operation of the Balax tap as compared to the Besly tap. Defendants' expert has never used the accused tap, and he could not contradict this finding. In fact, the court is of the opinion that the defendants have not offered any testimony that will dispute Mr. Fishleigh's findings on this point. It was the conclusion of this court

that the presence of the groove did not prevent the accused tap from infringing on the reissue claims. Since the only reason there is unequal spacing of the lobes is to make room for the groove, the court concludes that this unequal spacing does not prevent the accused tap from operating in a manner that infringes on the method claims.

As to the disputed language of claims 1 and 3, the defendants interpret this as meaning that each of the threads on the cylindrical portion of the tap is equal in pressure intensity to the last pressure area on the lead section of the tap. The defendants state that only the first lobe on the cylindrical portion does any work and that it does less work than the last thread on the tapered lead section. The defendants assert that it is impossible for the successive threads on the cylindrical portion to apply the same pressure as the last thread on the lead portion since the cylindrical portion does no work.

The plaintiffs agree that the threads on the cylindrical portion, except for the lobe on the first thread of that section do not do any work. As stated in column 2, lines 47-50 of the specifications of the method patent:

> "In a sense, the majority of the maximum area 13 [the cylindrical section] floats or rides through after the work is done by the tapered portion 14, 15 and 16 and the first turn or so of the maximum area 13."

The plaintiffs contend that the claim language means, in light of the specification, that the pressure areas in the cylindrical section are equal in size and in pressure-applying *ability* as the last lobe on the tapered section They say that this does not mean that all the threads on the cylindrical section actually apply the same pressure as the last lobe on the tapered section.

The defendants maintain that the claim language specifically says that the threads on the cylindrical portion do in fact apply the same pressure.

As stated earlier in reference to the *Canaan* Case, supra, a patentee is his own lexicographer, and the terms he uses should be interpreted to read upon the structure he describes in the patent. Also, while the claims define the invention, the specifications may be used to explain any ambiguity in those claims. The claims are to be read in light of the specifications, and both are to be read with a view to ascertaining the invention. See Minnesota Mining and Manufacturing Company v. Technical Tape Corp., 309 F. 2d 55 (7th Cir. 1962); Scherbatskoy v. United States Steel Corp., 287 F. 2d 552 (7th Cir. 1961).

The defendants place an interpretation on the claim language which they say results in a physical impossibility. They say that since taps do not operate in this manner, their tap does not; and therefore their tap does not infringe upon the method claims. The court reads the claims in light of the specifications. The specifications indicate that only the first turn or so of the threads on the cylindrical portion do any work. Therefore, when the claims state that the areas in the second series are substantially the same in size and pressure intensity to the last such pressure area in the first series, this must mean that their pressure-applying ability is the same, not the pressure which they actually apply. To give this language a contrary meaning would not be in accord with the way the specifications describe the method the tap uses.

In applying the doctrine of equivalents, I conclude that the claims of the method patent find a response in the method performed by the Balax tap.

THERE IS NO WILLFUL AND WANTON INFRINGEMENT BY THE DEFENDANTS

The plaintiffs have asked for treble damages and for the awarding of reasonable attorneys fees. This is provided for in 35 U.S.C. §§ 284 and 285. For such an award the court must find exceptional circumstances. The plaintiffs say such exceptional circumstances are present because the defendants have willfully and wantonly infringed upon the patents in suit. If infringement of this type is found, the court, in its discretion, may award treble damages and reasonable attorneys fees. Union Carbide Corp. v. Graver Tank & Mfg. Company, Inc., 282 F. 2d 653 (7th Cir. 1960); Upjohn Company v. Italian Drugs Importing Company, 190 F. Supp. 361 (S.D. N.Y. 1961).

The court in the *Upjohn* Case states that such awards are to be made sparingly and usually only where a clear showing of deliberate infringement is made. The plaintiffs cite the case of Maxon Premix Burner Company, Inc. v. Mid-Continent Metal Products Company, 155 USPQ 434 (N.D. Ill. 1967), for factors upon which a finding of an absence of good faith on the part of the infringing defendant can be made. In the *Maxon* Case, the court found that the defendant had literally infringed upon the claims of the patented device.

The plaintiffs point out that the reissue patent was issued almost four years before the defendants' swaging taps appeared on the market in 1962. It is also a fact that Mr. Van Vleet received certain information concerning the plaintiffs' taps in 1961. During that same year, Mr. Van Vleet was negotiating for a licensing arrangement with the plaintiffs (PX 143) so that he knew of the Besly patent. On the other hand, the defendants point out that they were relying on the advice of counsel and cite a letter

from their attorney to plaintiffs' attorney (DX 237). The plaintiffs take issue with the conclusion which the defendants draw from this letter.

The court has found that the defendants' accused device infringes on both patents in suit, although the '755 patent has been held to be invalid. The infringement was based upon the doctrine of equivalents. The court is also of the opinion that the issue of infringement was clearer to resolve than the issue of validity. This is illustrated by the fact that the court held the question to be sufficiently close so that the secondary considerations of commercial success were referred to.

> The court in the *Upjohn* Case, supra, at page 367 said: "There must be a deliberate purpose to infringe and such a purpose is not found where the validity of the patent and any possible infringement is open to honest doubt."

It is the court's opinion that the defendants have been in good faith in questioning the validity of the patents in suit. Furthermore the court does not deem it bad faith for the defendants to have manufactured and sold the accused device which basically differed only in that it had a groove. Since the court did not find file wrapper estoppel, a strict construction was not put on the claim language referring to a "continuous" thread, but this does not mean that the defendants were not acting reasonably in relying on this language.

There is a gap between infringement and willful and wanton infringement and the plaintiffs have not satisfactorily spanned this gap. I find that the plaintiffs have not sustained their burden of proof in establishing the exceptional circumstances called for. Their request for treble damages and reasonable attorneys fees under §§ 284 and 285 must be denied.

HAVE THE DEFENDANTS APPROPRIATED THE PLAINTIFFS' TRADE SECRETS?

In addition to their charges of infringement, the plaintiffs have alleged that the defendants have appropriated Besly's trade secrets. This issue of unfair competition is based upon diversity of citizenship which exists in the case at bar. State law is to be used in determining the issue. Bliss v. Gotham Industries, Inc., 316 F. 2d 848 (9th Cir. 1963); Smith v. Dravo Corp., 203 F. 2d 369 (7th Cir. 1953); Solo Cup Company v. Paper Machinery Corp., 240 F. Supp. 126 (E.D. Wis. 1965). According to the doctrine of Erie R. Co. v. Tompkins, 304 U.S. 64, 58 S.Ct. 817, 82 L. Ed. 1188 (1938), the state law upon which to base the plaintiffs' right of recovery is the law of Wisconsin.

The Wisconsin law has recently been set down in Abbott Laboratories v. Norse Chemical Corp., 33 Wis. 2d 445, 147 N.W. 2d 529 (1967). The Wisconsin court stated that they believed that the Restatement of Law correctly stated the general law of trade secrets. Referring to the Restatement, the court found that two elements were essential in establishing a cause of action: an actual trade secret and breach of confidence. Among the factors to be considered in determining whether given information is a trade secret, the court listed the following, at pages 463-464, 147 N.W. 2d at pages 538-539:

(a) The extent to which the information is known outside of his business;

(b) the extent to which it is known by employees and others involved in his business;

(c) the extent of measures taken by him to guard the secrecy of the information;

(d) the value of the information to him and to his competitors;

(e) the amount of effort or money expended by him in developing the information;

(f) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Both sides have set out in their briefs what they believe the pertinent facts to be in resolving this issue. The plaintiffs contend that they supplied the defendants with confidential information, and that the defendants put this information to use; that this information enabled the defendants to enter the swaging tap business by a shortcut. The defendants, on the other hand, maintain that they received no information from the plaintiffs which was confidential, and that at no time did they use the information that the plaintiffs supplied to them.

Have the plaintiffs satisfied the factors of the *Abbott* Case? The court will examine the items enumerated in that case:

(a) The information is not known to a great extent outside of Besly's business. The testimony indicates that Besly supplied similar information only to its licensees. Mr. Van Vleet testified that some of this information can be found in "Standards and Dimensions for Taps and Dies". (PX 176). But the testimony of one of plaintiffs' engineers contradicts Mr. Van Vleet. This employee stated that the information in the standards book does not apply to swaging taps. (Tr 524).

(b) The plaintiffs have not shown the extent to which this information is known by its employees and others involved in Besly's business.

(c) Similarly, the plaintiffs have not demonstrated the extent of any measures taken by them to guard the secrecy of the information; they say, however, it is not the type of information that they would divulge to a competitor.

(d) The testimony indicates that this information does have value to Besly and its licensees. Plaintiffs claim that it had great value to the defendants because the latter used it as a shortcut to get into the swaging tap business. The record shows that the defendants had not produced a swaging tap before the visits to Besly. (Tr 316). But the evidence also shows that when the plaintiffs visited the Balax plant in 1965, they found very little in common between the two operations. (Tr 824).

(e) The testimony discloses that it took great effort to develop the information. It was stated that it would take one man working full time a year to develop identical information. (Tr 522).

(f) This latter statement also applies to the difficulty with which this information could be properly acquired or developed by others.

Defendants contend that the plaintiffs did not supply them with all the information which the latter claim was furnished. Nevertheless, this court is of the opinion that the information that was in fact supplied may properly be characterized as an actual trade secret.

The next question to be answered is whether a confidential relationship existed between the parties. The plaintiffs allege that they did not view Mr. Van Vleet as a competitor; that he told them that he was only interested in manufacturing and leasing machines that could produce taps. Mr. Van Vleet states that he conveyed the impression to Besly that he was in the tap business.

Mr. Van Vleet believed that he could produce a tap superior to the plaintiffs'. The tests made by the plaintiffs at a later date disclosed that Mr. Van Vleet's improvements in regard to lead error did not actually alter the tool's operation. However, this does not warrant the conclusion that Mr. Van Vleet used the alleged improvements as a guise to get information out of Besly. The record does not disclose any adequate precautions taken by Besly to protect the secrecy of the information they were giving Mr. Van Vleet; they say that the parties entered into a "joint venture", but there is not sufficient testimony to establish this. At best, the record discloses that both parties felt that they could help each other (PX 121).

It is the court's opinion that the plaintiffs should have regarded Mr. Van Vleet as a potential competitor. The plaintiffs did not take reasonable precautions which would prevent him from becoming a competitor if a satisfactory arrangement could not be worked out with Besly. Viewing Mr. Van Vleet as a potential competitor, the plaintiffs should have taken steps to insure the confidentiality of the information given to him. The plaintiffs have failed o demonstrate that a confidential relationship existed or was contemplated by the parties. Therefore, the plaintiffs have not sustained their burden of proof that the defendants appropriated trade secrets.

IS THE COMPANY PRESIDENT PERSONALLY LIABLE FOR INFRINGEMENT?

The plaintiffs seek to hold Mr. Van Vleet personally liable for the infringement of the patents in suit. Balax was incorporated in 1959, and Mr. Van Vleet has been its president since then. Initially, Mr. Van Vleet was the only

stockholder, and at present he owns 63 percent of the stock. (Tr 268). Until 1964, there were only three corporate officers of Balax. At that time, Mr. Dobrogowski was employed by the board of directors. His duties are similar to those of Mr. Van Vleet. (Tr 292). This includes engineering, design, research and development of products. It was Mr. Van Vleet who designed the accused structure. (Tr 269). He was also the person who was in contact with the Besly people during the 1961 period when certain information was obtained from Besly. The plaintiffs contend that the record supports a finding that Balax was Mr. Van Vleet's alter ego.

The defendants state that Balax is a corporation in which many people have money invested; that it is run by an active board of directors; and that Mr. Van Vleet did not take any of the management responsibility away from this board.

The plaintiffs urge that every requirement of Rex Chainbelt, Inc. v. General Kinematics Corp., 363 F.2d 363 F. 2d 336 (7th Cir., 1966), has been met for holding Mr. Van Vleet personally liable. That case did not purport to set out a list of general requirements for finding personal liability; the court simply listed factors which supported that finding. It appears that some of those same factors can be found in the instant case. However, the record in this case shows that the board of directors does have a hand in the management of Balax.The corporation and Mr. Van Vleet are not one and the same, even though because of his majority stockholding and the relatively small size of the organization, Mr. Van Vleet is a most integral cog.

I conclude that Mr. Van Vleet is not hiding behind "the corporate veil". The record does not support a

finding that Mr. Van Vleet should be held personally liable for the infringement of the patents in suit.

DID THE PLAINTIFFS PERPETRATE A FRAUD ON THE PATENT OFFICE?

One of the several defenses which the defendants interposed in this lawsuit is that the plaintiffs obtained the patents by committing fraud on the patent office. This is the "spectre of unclean hands" which Judge Swygert referred to in National Dairy Products Corp. v. Borden Co., 394 F. 2d 887, 891 (7th Cir. 1968). The defendants have the burden of proving this by clear and convincing evidence. Armour & Company v. Wilson & Company, 274 F. 2d 143, 148 (7th Cir. 1960).

The defendants claim that inventor Welles filed affidavits with the patent office which, contrary to his knowledge, claimed that the subject matter had not been in public use or on sale more than one year prior to his applications. The defendants contend that Welles knew of the German publications, plus the Pratt & Whitney and Detroit Tap sales at the time the reissue patent was applied for. In regard to the '755 patent, the defendants claim that Mr. Welles failed to inform the patent office of sales to Besly's customers more than one year prior to the date of the application.

To support their contentions, the defendants cite the testimony of Warren Olson, president of Besly. Mr. Olson testified that about 1955-56, during the course of general meetings, he heard about certain companies and about sales to Fisher Body. These companies were Ernst Reime, Pratt & Whitney and Detroit Tap. He states that he probably got this information from either Mr. Welles or Mr. Addoms. The plaintiffs date such conversations around October 1958.

The court believes that Mr. Olson did indeed hear something about these companies at the time he testified that he did; however, his testimony is inconclusive as to exactly what he heard, and even more inconclusive as to what knowledge can be attributed to Mr. Welles during this period. This is not clear and convincing evidence of fraud on the patent office.

The court has also considered the evidence as to what Mr. Olson told the patent office in his oath of July 23, 1959; he there stated that the initial promotion of the tap in suit began in January, 1958, but that there were a few previous sales incident to experimentation that were not significant. (PX 72 at page 49). A chart of average sales was appended which shows no 1957 or 1956 sales.

The defendants have not persuaded the court by clear and convincing evidence that the plaintiffs obtained the '755 patent by means of fraud.

ARE THE PLAINTIFFS NOT ESTOPPED BY LACHES?

The defendants maintain that the plaintiffs are barred by laches as regards their charges of patent infringement and trade secret appropriation. The defendants contend that it was almost two years after they were first notified of the charges that plaintiffs brought suit.

On April 20, 1962, Besly charged defendants with patent infringement. (DX 234). The complaint in this action was filed on June 17, 1964. However, on May 24, 1962, Besly filed an infringement action against Jarvis Corporation. (PX 9). Mr. Van Vleet learned about this suit which involved the patents in the instant action in March or April of 1963. (Tr 1194).

In Armstrong v. Motorola, Inc., 374 F. 2d 764 (7th Cir. 1967), the court noted that a suit pending to sustain the validity of a patent is notice to all infringers of the insistence by the patentee upon his claimed rights. The defendants knew of the Jarvis lawsuit, and therefore they should have known that Besly was insisting upon the rights it claims from the patents in suit. The suit against Jarvis was filed after Besly had notified the defendants in the instant case of its charges of infringement.

Upon the facts of the case at bar, the plaintiffs are not barred from maintaining this suit against the defendants.

HAVE THE PLAINTIFFS VIOLATED THE ANTI-TRUST LAWS?

The defendants have counterclaimed averring that the plaintiffs have violated sections 1 and 2 of the Sherman Act. Treble damages are sought under section 4 of the Clayton Act. In my opinion, this counterclaim may not succeed because (1) there was no adequate proof of fraud in procuring the patents in suit, (2) the plaintiffs are not properly chargeable with illegal enforcement of their patents, and (3) there has been no sufficient showing of an illegal combination to restrain trade.

By dint of its valid patent Re. 24,572, the plaintiffs were entitled to the limited protection afforded under the patent laws. This included the right to license others to manufacture the patented tap. It is inappropriate to denominate this conduct as "conspiratory" or "monopolistic". United States v. Masonite, 316 U.S. 265, 62 S. Ct. 1070, 86 L. Ed. 1461 (1941) is not applicable.

In my opinion, there is no merit to the defendants' counterclaim.

CONCLUSION

The foregoing opinion constitutes this court's findings of fact and conclusions of law in accordance with rule 52(a), Federal Rules of Civil Procedure.

Counsel for the plaintiffs are requested to prepare an order in accordance with the foregoing opinion. Said order may be presented to the court for signature but not before the same has been in the hands of defendants' counsel for at least ten days.

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No. 72-1401

In the
Supreme Court of the United States
October Term, 1972

BALAX, INC. and JOHN M. VAN VLEET,
Petitioners,

vs.

THE BENDIX CORPORATION and
SELLEW CORPORATION,
Respondents.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1972

No. 72-1401

BALAX, INC. and JOHN M. VAN VLEET,
Petitioners,

vs.

THE BENDIX CORPORATION and
SELLEW CORPORATION,
Respondents.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

STATEMENT OF THE CASE*

This Petition for Writ of Certiorari represents another step in Balax's continuing effort to obtain judicial support for its unique view of the Sherman Act. Balax argues that the grant of a patent license containing a term precluding patent contestability constitutes a Sherman Act violation. In effect, Balax is saying that the Supreme Court decision in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969) created an antitrust remedy which can be enforced retroactively.

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* Petitioners Balax, Inc. and John M. Van Vleet will be referred to collectively as "Balax," and respondents The Bendix Corporation and Sellew Corporation as "Besly," the terminology used during the prior proceedings below.

Balax's Petition asserts that the Seventh Circuit Court of Appeals erred in deciding three issues. Balax contends that: (1) the Seventh Circuit incorrectly decided that licensee estoppel clauses in patent license agreements were valid and enforceable prior to *Lear;* (2) the Seventh Circuit improperly defined the relevant market; and (3) the Seventh Circuit incorrectly concluded that Balax had not been injured by any acts of Besly.

Respondents submit that the Seventh Circuit decision was correct and proper in all respects. Passing that issue for the moment, this case lacks the significant and crucial appellate issues which should concern the Supreme Court of the United States. The question of licensee estoppel already has been decided. This court held in *Lear* that licensee estoppel was no longer the law. Since 1969, every patent licensee has been free to contest validity.

This case is unique in that it is one of the very few cases where licensee estoppel can be remotely related to an antitrust issue. Licensee estoppel is a doctrine that prevents a person operating under a patent license or assignment from contesting the validity of the patent from which he benefits. The Supreme Court held in *Lear* that this doctrine should be discontinued. Since 1969, licensee estoppel terms have been automatically void and unenforceable.

Balax's claim is based on the theory that pre-1969 license agreements using "estoppel" language violate the Sherman Act. This unique view of the Sherman Act raises supposed antitrust consequences for only those few license agreements entered into prior to 1969, and then only to the extent the statute of limitations has not run. Thus, any decision rendered in this case on this limited issue would have virtually no precedential value. It would have prac-

tically no impact upon any persons other than the parties hereto. Certainly, this is not the type of case which should be before the Supreme Court.

The remaining two issues—relevant market and injury—were decided on primarily factual grounds. The Supreme Court of the United States should not be concerned with factual issues which have no precedential value or impact beyond the particular case at hand.

STATEMENT OF KEY FACTS

Besly developed the first commercially feasible swaging tap in the United States and in good faith obtained patents covering its swaging tap invention. The District Court (291 F. Supp. 328 at 347) and the Seventh Circuit (421 F. 2d 809 at 819) held that Besly had applied for, obtained and enforced its patents in good faith, and Balax has never challenged those findings. As Balax conceded and the Seventh Circuit held, Besly's actions must be judged as though its patents were valid (Balax Seventh Circuit Brief, p. 48; 471 F. 2d 149 at 154, 155). Besly's patents gave it the exclusive right to manufacture and sell its patented swaging taps in the United States. In short, Besly possessed a lawful monopoly granted by the Constitution and statutes of the United States.

Besly chose, however, not to foreclose other manufacturers from manufacturing and selling its patented swaging taps. Besly freely licensed others, thereby establishing substantial competition in a new product. By virtue of their license agreements, other competing manufacturers were able to avoid the necessity of developing a non-infringing swaging tap. They achieved instant entry into a new and expanding market, where they immediately began to compete with Besly. (A. 329, 333, 341-42).

Balax never became a licensee and unfairly suggests that Besly refused to license it in order to eliminate it as a competitor (Balax Petition, pp. 3, 11). This unfounded claim was disposed of below on the basis of facts which established that Besly in good faith had offered a license to Balax.* (471 F. 2d at 152-53).

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* In 1961, long before Balax began to manufacture taps, it sought a license from Besly. Van Vleet (Balax's founder and an individual petitioner) informed Besly that he had developed an improved swaging tap which was superior to the Besly swaging tap. (A. 239-40, 319) At that time, Balax was a new company which employed only four unskilled laborers and mechanics (A. 493), had never manufactured a swaging tap (A. 100, 206) and, in Van Vleet's words, had "no product to sell." (A. 493-94)

Van Vleet suggested a cross-license arrangement between Besly and Balax as soon as he had proven that his Balax tap was better than Besly's product. (A. 277-78, 286-87, 302-03, 308-09) Of course, since Balax had never manufactured a swaging tap, Balax needed Besly's technical assistance to produce and test sample taps (A. 302-03). During the course of their joint efforts, Besly gave Balax free access to its secret engineering and technical data (A. 298) and Van Vleet took copious and detailed notes of his conversations with Besly engineers. (PX 124, 126, 127, 129, 131, 133, 137, 139, 140 and 146, App. Ex. pp. 156-160, 163-171, 174-179 and 190-191). Van Vleet evidently was seeking his stated goal of using Besly as a "short-cut" into the swaging tap business (A. 300). However, unlike Besly's licensees, Balax never paid for the "short-cut" which it obtained. When it turned out that the Balax tap was no better than the Besly tap, negotiations reached an impasse and were terminated (PX 175, App. Ex. pp. 193-201; A. 100). Three months later, Balax sold its first commercial swaging taps (A. 203-04).

After the first hearing, the District Court found that Balax had appropriated trade secrets belonging to Besly, but denied relief because there was no "confidential relationship" between the parties. The court stated that Besly should have taken greater precautions to safeguard its secret and confidential data from Balax. (291 F. Supp. at 345-46).

In the tap industry, manufacturers market their products through independent distributors. In the United States, there are over 20,000 independent distributors who purchase swaging taps and resell them to hundreds of thousands of machine shops and other users. These independent businessmen owe no allegiance to any manufacturer. They purchase the product, warehouse it and sell it at prices which they set. (A. 553, 670-72)

Besly's license agreements created competition between distributors at the retail level. If Besly had maintained its lawful patent monopoly, its distributors would have been the only persons selling such taps at retail. In fact, Besly's license agreements enabled thousands of other distributors to offer and sell competing swaging taps. Viewed from the distributorship level, the source of supply of swaging taps had expanded to include the following manufacturers: United-Greenfield; Jarvis; Continental Screw; National Twist Drill; Union Twist Drill; Cleveland Twist Drill; Threadwell; John Bath; Pratt & Whitney.

Balax claims that these license agreements—terminated in 1969—violate the Sherman Act because they included provisions under which the licensees agreed to respect the Besly patents which they were licensed to use. The Seventh Circuit Court of Appeals held that this contention lacked any merit since licensee estoppel, applied by both common law and contract, was valid prior to *Lear*. Moreover, there was no indication that these licensee estoppel clauses had any actual impact on any licensee. Prior to entering into a license agreement, each licensee had been free to contest patent validity. There is no evidence that, after entering into a license agreement, any licensee ever sought to contest Besly's patents. In short, Balax made no effort to establish any casual connection between the challenged licensee estoppel clause and any injury to it.

Balax suggests that Besly's license agreements prevented it from selling to other tap manufacturers and distributors of taps (Balax Petition, pp. 9, 15-16). This argument assumes that Besly's patents blanketed the entire swaging tap product line. However, this is not the case. While Besly's patents were in force, Balax obtained its own patents covering an improved type of swaging tap. (A. 461, 474) What better proof can there be that Besly's patents did not cover all swaging taps?

Besly's license agreements were limited to swaging taps of the type covered in its patents. Its licensees were free to manufacture or purchase any type of non-infringing swaging tap, including Balax's patented taps. More significantly, Balax was able to sell its swaging taps to any of 20,000 independent distributors throughout the country.

Balax's claim of injury is suspect. Besly's licensing arrangements have not limited Balax's ability to compete. Balax was not a licensee and thus was free to contest the patents.

The market facts of record attest to the absence of any competitive restraints on Balax. Between 1964 and 1970, Balax's sales of swaging taps increased by 600%, from $108,000 to $647,000. At the same time, Besly's market position was deteriorating. While its licensee's sales more than doubled, Besly's sales in 1970 were barely 3% greater than they were in 1964. (471 F. 2d at 162; A. 143; PX 183, App. Ex. p. 265).

REASONS FOR DENYING THE PETITION FOR WRIT OF CERTIORARI

Balax's antitrust claim against Besly is founded upon the *Lear* decision of this Court. For that reason, this case is a virtual anachronism. As mentioned *infra*, it is virtually an impossibility for any future cases like *Balax* v. *Bendix* to arise. Since 1969, licensee estoppel provisions have been void and unenforceable. Any decision in this case affects only those license agreements entered into prior to 1969, and then only to the extent that the four-year statute of limitations has not run.

This case has little precedential value. For that reason alone, the Supreme Court of the United States should deny *certiorari*. Moreover, the decision rendered by the Seventh Circuit Court of Appeals follows established legal precedent and correctly applies the law to the facts of this case.

THE SEVENTH CIRCUIT PROPERLY REFUSED TO APPLY LEAR RETROACTIVELY TO CONDEMN BESLY'S PRE-1969 LICENSE AGREEMENTS MADE IN GOOD FAITH IN RELIANCE ON PRIOR LAW.

This case is a direct outgrowth of the Supreme Court decision in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), rendered during the pendency of the first appeal to the Seventh Circuit. This case originated as a patent infringement suit filed by Besly. Balax interposed its antitrust counterclaim, which charged two violations of the Sherman Act: (1) that Besly had unlawfully procured and enforced its patents; and (2) that Besly's license agreements extended the scope of its patent monopoly in violation of the Sherman Act. After the first hearing, the District Court held that Besly's product patent was valid and infringed and dismissed Balax's counterclaim on the grounds that it had "no merit." 291 F. Supp. at 348.

On the first appeal, the Seventh Circuit affirmed the District Court holding that Besly had obtained and enforced its patents lawfully and in good faith. However, the court noted that Besly's license agreements contained licensee estoppel provisions, which had been abolished by the Supreme Court in *Lear*, decided while the appeal was Pending. Thus, the Seventh Circuit remanded for the District Court to consider "the relevance, if any, of *Lear* . . ." (421 F. 2d 809 at 821).

On remand, the District Court held a two-day hearing. On essentially the same evidence which had been presented at the first hearing, the District Court concluded that Besly had violated the Sherman Act, apparently interpreting the remand as a direction to apply *Lear* retroactively and enter judgment for Balax. The remand decision amounts to the District Court's conclusion that a licensee estoppel term in patent license agreements is an anticompetitive device which *per se* violates the Sherman Act. (321 F. Supp. 1095 at 1096).

The Seventh Circuit reversal recognizes the salient fact that the licensee estoppel provisions in Besly's license agreements had no legal or practical impact upon any licensee. Prior to the *Lear* decision, licensee estoppel was the law of the land. The law implied a licensee estoppel term in every patent license agreement. Besly's licensees could not have challenged the licensed patents, whether or not the agreement contained explicit language to that effect.

As long ago as 1905, the Supreme Court recognized "the assumption that a licensee, when sued for royalties, is estopped to deny the validity of the patent which he has been using . . ." *United States* v. *Harvey Steel Co.*, 196 U.S. 310 at 317 (1905). As the Seventh Circuit pointed

out, the Supreme Court in 1950 reaffirmed "the general rule" that a licensee is estopped to deny the validity of the licensed patent. *Automatic Radio Manufacturing Co.* v. *Hazeltine Research, Inc.*, 339 U.S. 827 at 836 (1950).

Licensee estoppel has been applied in numerous federal and state court cases. *E.g., United Manufacturing & Service Co.* v. *Holwin Corp.*, 187 F. 2d 902 (7th Cir. 1951); *Prestole Corp.* v. *Tinnerman Products, Inc.*, 271 F. 2d 146 (6th Cir. 1959). See 69 C.J.S., *Patents*, §160 at 621-22.

Since the law implied a licensee estoppel term in every patent license agreement, an explicit term to that effect was valid and enforceable prior to *Lear*. *E.g., Baker-Cammack Hosiery Mills, Inc.* v. *Davis Co.*, 181 F. 2d 550 (4th Cir. 1950) *cert.* denied 340 U.S. 824; *Hope Basket Co.* v. *Product Advancement Corp.*, 89 F. Supp. 116 (W.D. Mich. 1950) aff'd 187 F. 2d 1008 (6th Cir. 1951) *cert.* denied 342 U.S. 833; *Carter Products, Inc.* v. *Colgate-Palmolive Co.*, 164 F. Supp. 503, 525 (D. Md. 1958).

Balax refuses to recognize the overwhelming weight of judicial precedent, claiming that this case is controlled by *Pope Manufacturing Co.* v. *Gormully*, 144 U.S. 224 (1892). However, *Pope*, which was not an antitrust case, does not support Balax's contention. The patentee, Pope, owned several patents covering various aspects of its product line. Pope licensed a limited number of its patents and extracted a covenant that the licensee would not contest the validity of Pope's *non-licensed* patents. This is the crucial distinction between the *Pope* case and the unbroken line of cases upholding licensee estoppel. Prior to *Lear*, the law implied and the parties lawfully could contract that the licensee would not contest validity of his *licensed* patents. Besly's licensee estoppel terms likewise applied only to its *licensed* patents. In *Pope*, however, the patentee

obtained protection for *non-licensed* patents. This is why the Supreme Court refused specific enforcement of the patent license in *Pope*.

The Seventh Circuit held that Besly's licensee estoppel terms, which were limited to its licensed patents, were valid when made and refused to apply *Lear* retroactively to create antitrust liability stemming from agreements made years earlier in reliance on prior law. In short, the Seventh Circuit held that licensee estoppel, prior to *Lear*, was a part of a patentee's lawful monopoly. Balax does not appear to question the Seventh Circuit application of the "retroactivity" factors noted by this Court in *Chevron Oil Co.* v. *Huson*, 404 U.S. 97 (1971).

Balax suggests in its Petition that there is an antitrust difference between a manufacturing and a non-manufacturing license agreement. (Balax Petition, p. 15) The law has never recognized such a distinction. A patentee has the exclusive right to make, use and sell any product embodying the patent. The law permits him to divide up those rights as he sees fit. The patentee lawfully may license one person to manufacture the patented product and another person to sell it. *Extractol Process, Ltd.*, v. *Hiram Walker & Sons, Inc.*, 153 F. 2d 264 (7th Cir. 1946); *Rock-Ola Manufacturing Corp* v. *Filben Manufacturing Co.*, 168 F. 2d 919 (8th Cir. 1948); *Security Materials Co.* v. *Mixermobile Co.*, 72 F. Supp. 450 (S. D. Cal. 1947).

Besly freely offered licenses to other manufacturers to manufacture and sell swaging taps embodying its patents. Those manufacturers who wanted to manufacture swaging taps in their own facilities were given manufacturing licenses. Other manufacturers did not foresee a

market large enough to justify the necessary cost of tooling; Besly agreed to supply them with their requirements of its patented swaging taps and gave them the option to commence manufacturing in their own factilities at any time.

Both types of license agreements—manufacturing and non-manufacturing—are subject to the same legal consequences. In *Steiner Sales Co.* v. *Schwartz Sales Co.*, 98 F. 2d 999 (10th Cir. 1938) *cert.* denied 305 U.S. 662, the Tenth Circuit enforced a licensee estoppel term in both manufacturing and non-manufacturing license agreements, holding that the license term went "no further than the estoppel which the law itself imposes upon a licensee." 98 F. 2d at 1009.

Balax attempts to characterize Besly's non-manufacturing licenses as requirements contracts. (Balax Petition, pp. 15-19) This contention misconstrues the limited nature of the license. Besly's license agreements were limited to swaging taps "of the character described and claimed in" the Besly patents. (PX 17, 19, 20, and 21, App. Ex. pp. 104-105 and 107-119) Every licensee was free to purchase non-infringing taps from any source, including Balax. Significantly, Balax manufactured non-infringing taps; it obtained patents covering its "no lead error" swaging tap invention. (A. 461, 474) Besly's licensees were free to purchase Balax's non-infringing swaging taps at the same time that they were manufacturing or purchasing Besly's swaging taps. Moreover, 20,000 independent distributors were free to buy Balax taps for resale to ultimate users.

A "requirements" agreement limited to a patented product does not, as a matter of law, result in any unlawful market foreclosure. Such a requirements provision is

simply an agreement not to infringe the licensed patents, an obligation already imposed by the patent laws. There can be no unlawful impediment to competition so long as the licensee remains free to deal in non-infringing products. *E.g., Steiner Sales Co.* v. *Schwartz Sales Co.*, 98 F. 2d 999 (10th Cir. 1938), *cert.* denied 305 U.S. 662; *Baldwin-Lima-Hamilton Corp.* v. *Tatnall Measuring Systems Co.*, 169 F. Supp. 1 (E.D. Penna. 1958), aff'd 268 F. 2d 395 (3rd Cir. 1959), *cert.* denied 361 U.S. 894.

THE SEVENTH CIRCUIT PROPERLY DEFINED THE RELEVANT MARKET IN THIS CASE AND ANY ERROR IN ITS MARKET DEFINITION WAS IN BALAX'S FAVOR.

Balax has contended throughout this case that the claims of a patent effectively delineate a relevant product market for antitrust purposes. The *DuPont* "cellophane" case, *United States* v. *DuPont*, 351 U.S. 377 (1956), demolishes that argument. The Government contended that the relevant market consisted of cellophane, a patented product. This Court held that the relevant product market included all products which were "reasonably interchangeable" in a commercial sense. Thus, the relevant market in the *DuPont* case included those products which were offered and sold to the public in competition with cellophane.

The existence of a patent is basically immaterial to the question of relevant market. For example, General Electric has introduced a new lawn mower powered entirely by batteries. Whether or not General Electric has a patent on its product is immaterial to its position in the actual market. General Electric must compete with dozens of other companies who manufacture power lawn mowers—gasoline powered and electric. Its battery-powered lawn

mower is simply a new product which competes with other power lawn mowers for the favor of customers.

Similarly, swaging taps are a relatively new product competing in the marketplace with other products performing the same function—making internal threads in holes. Prior to Besly's development of swaging taps, this function was performed entirely by cutting taps. At the present time, both products are in competition for the favor of customers. Balax advertises that its swaging taps "are designed for use with conventional equipment." (PX 57, App. Ex. p. 142) Its sales manager concedes that cutting tap salesmen constitute substantial competition to Balax, which sells only swaging taps.

> Q. . . . does the cutting tap salesman constitute any substantial competition to you?
> A. Yes, yes. (A. 535)

Machine shops find it convenient to use both cutting taps and swaging taps in their operations. (A. 170, 193) The interchangeability between these types of taps makes it desirable for manufacturers to produce and offer both swaging and cutting taps to their distributors. (A. 513, 537).

The Census Bureau recognizes only one product line in this area, encompassing both swaging and cutting taps. According to records maintained by the Census Bureau (PX 179, App. Ex. p. 204) and the Metal Cutting Tool Institute (PX 178, App. Ex. p. 201M), swaging and cutting taps account for about $60,000,000 in annual sales. In the Seventh Circuit, Balax agreed that the overall tap market was $60,000,000. (Balax Seventh Circuit Brief, pp. 9-10, 43).

Swaging and cutting taps do not compete head-to-head over the entire $60,000,000 tap market. Swaging taps

cannot be used in certain applications. Some metals are too hard or brittle; others are too elastic or "stringy." (A. 533-34, 566) Excluding these applications from the area of effective competition, witnesses for both parties testified that swaging taps and cutting taps compete in about 50% of the tap market. Balax's sales manager testified (A. 534):

> Q. If you were to combine the entire dollar volume sales of taps of all types for any purpose, about how much of that total dollar volume would you assume could not use swaging taps?
>
> A. Well, if the manufacturers of swaging taps were successful in saturating the swaging tap market completely, 100 per cent, I would estimate that about half of the—half or slightly less than half of the ground thread tap market could successfully use cold-forming taps."

Besly's general manager agreed (A. 566):

> Q. And again, directing your attention to the total industry figure or the total industry application of taps in the order of sixty to sixty-five million dollars, what percentage of that would be excluded from the swaging tap available market?
>
> A. I would say fifty percent.
>
> * * *
>
> Q. We've talked about average monthly figures in 1970. What is the—your estimate of the average monthly figure in 1970 to which the swaging tap could be applied?
>
> A. I would think possibly three million dollars worth of sales per month."

The evidence of record establishes that swaging taps and cutting taps compete in a $30,000,000 market where both types of taps can be used interchangeably on the same applications. In the Seventh Circuit, Balax agreed but contended that the $30,000,000 market was really a $6,000,000 market. Balax argued that, due to price and

performance differentials between swaging and cutting taps, $30,000,000 of cutting taps can be replaced by $6,000,000 of swaging taps. Thus, Balax contended that the relevant market was $6,000,000. (Balax Seventh Circuit Brief, pp. 6-7, 9-10, 43). The Seventh Circuit tested Besly's market power in both the actual $30,000,000 market and the hypothetical $6,000,000 market and, making all assumptions most favorable to Balax, concluded that Besly had not monopolized or attempted to monopolize. (471 F.2d at 161-63).

In its Petition for Writ of Certiorari, Balax has totally reversed its field. Balax now denies that there is any effective competition between swaging taps and cutting taps and argues that the relevant product market must be limited to swaging taps alone. (Balax Petition, p. 22) This contention is contradicted by the evidence of record admitted by Balax before the Seventh Circuit. In any case, swaging taps do not constitute a relevant "submarket" under the guidelines laid down in *Brown Shoe Co.* v. *United States,* 370 U.S. 294 (1962).*

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*1. There is no evidence of any industry or public recognition of swaging taps as a separate economic entity. Swaging taps are sold by the same distributors who handle cutting taps. In fact, the evidence establishes that it is desirable for manufacturers to offer both types of taps to their distributors (A. 513, 537, 661). The Census Bureau has only one classification of taps, encompassing both swaging taps and cutting taps (PX 179, App. Ex. p. 204).

2. Swaging taps have no peculiar characteristics or uses which differentiate them from cutting taps. They both perform the same function. The only difference between cutting taps and swaging taps is the manner in which they form the internal threads (471 F.2d at 151).

3. There are no unique production facilities. Both cutting taps and swaging taps are manufactured by

THE SEVENTH CIRCUIT HOLDING THAT BALAX FAILED TO ESTABLISH THE FACT OF DAMAGE CORRECTLY APPLIED UNDISPUTED LEGAL PRINCIPLES TO THE FACTS OF THIS CASE.

The antitrust laws permit suit to be brought only by a person who has been injured in his business or property. The fact of injury proximately caused by an antitrust violation is an indispensible prerequisite to recovery under the Sherman Act.

The fact of damage must be established by proof of two elements: (a) a wrongful act committed by the defendant; and (b) a proximate relationship between that wrongful act and injury to the plaintiff. As this court stated in *Bigelow* v. *RKO Radio Pictures, Inc.*, 327 U.S. 251 at 264 (1946), the plaintiff must establish "that defendants' wrongful acts had caused damage to the plaintiffs." It is absolutely necessary that the plaintiff prove "a causal connection between an antitrust violation and an injury . . ." *Billy Baxter, Inc.* v. *Coca-Cola Co.*, 431 F.2d 183 at 187 (2nd Cir. 1970), *cert.* denied 401 U.S. 923.

Balax claims that it was injured by Besly's institution of the original patent infringement suit. (Balax Petition, pp. 24-26) However, as the Seventh Circuit pointed out, a patentee possesses the lawful right to institute suit to protect his patent rights. Balax has never challenged the ruling on the first appeal that Besly lawfully obtained and

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* (Continued)
thread grinding machinery. Production equipment can be and is located in the same plant and operated by the same type of workmen.

4. The same customers purchase swaging taps and cutting taps. Machine shop owners testified that they use cutting taps and swaging taps interchangeably in their business (A. 170, 193).

enforced its patents. In addition, the Seventh Circuit noted on the second appeal that "our examination of the record discloses no action by the plaintiff relating to the institution of this lawsuit which differs in any material respect from that of any patentee who has assumed that his patent is valid." (471 F.2d at 159).

The right to bring a patent infringement suit has been protected by Congress. The Patent Code specifically provides (35 U.S.C. §271(d)):

> No patent owner otherwise entitled to relief . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . sought to enforce his patent rights against infringement or contributory infringement.

Patent infringement suits have been upheld repeatedly as lawful incidents to a patent. *E.g., Jacquard Knitting Machine Co.* v. *Ordnance Gauge Co.*, 213 F.2d 503 (3rd Cir. 1954); *International Visible Systems Corp.* v. *Remington-Rand, Inc.*, 65 F.2d 540 (6th Cir. 1933); *Bela Seating Co.* v. *Poloron Products, Inc.*, 297 F. Supp. 489 (N.D. Ill. 1968). The fact that Besly's patents ultimately were held invalid is no reflection on Besly's good faith in bringing suit against Balax. The Patent Office had issued its Letters Patent after a diligent search. After a lengthy trial, the District Court had held that Besly's key patent was valid. It was only upon appeal, after six years of litigation, that the Seventh Circuit held that Besly's swaging tap patents were invalid, basing its decision upon an obscure German petty patent. Under these circumstances, Besly's good faith in filing a patent infringement suit against Balax cannot be disputed. See *Cole* v. *Hughes Tool Co.*, 215 F.2d 924 (10th Cir. 1954), *cert.* denied *sub. nom.* 348 U.S. 927.

There is no hint that Besly's efforts to protect its patent rights were the result of conspiracy or agreement with any other person. Besly took unilateral action to protect its patent rights.

Wholly apart from the lawfulness of Besly's acts to enforce its patent rights, the Seventh Circuit held that Besly's actions were not the proximate cause of any injury suffered by Balax. Balax contends that Besly's alleged antitrust violations prevented it from expanding its distribution system and thereby increasing its sales. (Balax Petition, p. 25) However, Balax's sales manager testified at the first trial that Balax had not expanded to its fullest potential because it did not carry a line of cutting taps. Because distributors prefer to carry both swaging and cutting taps, Balax, which manufactured only swaging taps, found itself at a competitive disadvantage (A. 536-37). Balax's president, Van Vleet, testified that Balax chose to concentrate its efforts on swaging taps for business reasons unconnected with Besly or Besly's patent infringement action (A. 513):

> Q. I believe you testified that as early as 1960 or 1961, Balax had made some cutting taps?
>
> A. Yes, sir.
>
> Q. With that experience, why did Balax choose or decide to go into the swaging tap market?
>
> A. For a number of reasons. One, we were unable to purchase on the outside — from an outside vendor blanks of suitable quality. We tried with three manufacturers to purchase blanks and were not successful. Second, we realized how much we — realized as the result of tests how inferior the current swaging taps were to the kind that we could build. The tests that we have run and tests that our customers had run in the field indicated a marked superiority in our product. Thirdly, we could go into the swaging tap business without the purchase — without the capital

> investment of expensive fluting equipment and make a profit. We, therefore, elected to work on that area and to meanwhile design our own fluting equipment for the cutting taps so that we would be self-sufficient and do all of our operations within our own four walls.

Balax has suggested that two other activities may have caused injury to it: (a) Besly's supposed influence of the price structure for swaging taps; and (b) Besly's license agreements with other swaging tap manufacturers. These arguments are mere make-weights. There is no evidence at all in the record that Besly had any influence over the price of swaging taps. In any event, as the Seventh Circuit pointed out, any artificial increases in the price level for swaging taps would have operated to Balax's benefit, not to its detriment. (471 F.2d at 160, 164) Balax's suggestion that Besly foreclosed the market by entering into license agreements is factually unsound. As discussed *infra*, Besly's license agreements were limited to swaging taps covered by its patents. Its licensees were free to purchase non-infringing swaging taps from Balax. Moreover, Balax was free to sell any swaging taps to any of 20,000 distributors in the country.

Balax's remarkable success in the industry belies its contention of injury. Since 1964, its sales have increased geometrically, rising from $108,000 to $647,000 in 1970. (471 F.2d at 162) Although a plaintiff's continued success in the marketplace is not absolute proof of lack of injury, it certainly tends to discredit its partisan claim that it has been mortally wounded.

CONCLUSION

Respondents urge that this case does not meet the standards followed by this Court for issuance of a writ of *certiorari*. There are no special and important reasons for review of the Seventh Circuit decision. The issues posed by petitioners are of little importance to anyone other than the immediate parties. The petitioners have not demonstrated that the Seventh Circuit failed to apply established legal principles to the facts of this case. For the foregoing reasons, petitioners respectfully submit that the Petition for Writ of Certiorari be denied.

Respectfully submitted,

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Supreme Court, U. S.
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MICHAEL RODAK, JR., CLERK

No. 72-1401

In the
Supreme Court of the United States
OCTOBER TERM, 1972

BALAX, INC. and JOHN M. VAN VLEET,
Petitioners,

vs.

THE BENDIX CORPORATION and
SELLEW CORPORATION,
Respondents.

PETITIONERS' REPLY TO RESPONDENT'S BRIEF OPPOSING THE PETITION FOR CERTIORARI

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Petitioners submit this Reply Brief directed to the new issues raised by Respondents' Brief in Opposition to Petitioners' Petition for a Writ of Certiorari.

ARGUMENT

A. Petitioners' Antitrust Counterclaim is Not Based on Lear v. Adkins.

Respondents succeeded in having the decision of the District Court sustaining the antitrust counterclaim reversed below by arguing as is done here (Resp. Br., p. 7):

> "Balax's antitrust counterclaim is founded upon the *Lear* decision of this Court."
> * * *
> "This case is a direct outgrowth of the Supreme Court decision in Lear, Inc. v. Adkins, 395 US 653 (1969). ***"

From these and similar inaccurate statements elsewhere in the Respondents' brief, Respondents argue that this Court should not concern itself with this case. The argument is (Resp. Br. pp. 2-3) that since *Lear* "licensee estoppel terms have been automatically void and unenforceable" and, therefore, there are "supposed antitrust consequences for only those few license agreements entered into prior to 1969***."

However, the antitrust counterclaim before the Court could not be founded upon or an outgrowth of *Lear*. The District Court, which sustained the counterclaim, rejected *Lear* as the basis for the counterclaim. (A. 163-4). And the counterclaim was pleaded, tried, appealed and briefed on the first appeal before the decision in *Lear* was even handed down by this Court.

Rather, this antitrust claim arises from Respondents' use of rights to contract under State law and to sue for patent infringement under Federal law:

1) to combine with competitors and regiment the industry, specifically those competitors who had the motive, resources and, in one instance at least, the evidence to invalidate Respondent's patents; and

2) to attempt to limit or eliminate Petitioner Balax as a competitor to the members of the combination by a restrictive license, and when that effort failed, by the ultimate weapon of a patent infringement suit brought by Respondent, Besley.

By the time of the infringement suit, the combination included Respondent Besley and ten of its erstwhile competitors who had agreed to operate under the umbrella of Respondent's patents and to maintain the facade of validity of those patents. Five were licensed to manufacture swaging taps under Respondent's patents. The other five had entered into written agreements with Respondent to purchase all their requirements of swaging taps from Respondent and its manufacturing licensees. All had agreed that the validity of Respondent's patents was never to be contested, even though at least one of them possessed invalidating evidence and the opinion of its patent counsel that such patents were invalid.

By the time of hearing on reconsideration of the antitrust claim, only two competing non-licensed manufacturers of swaging taps remained outside the group—Petitioner and another whose sales were "not significant in amount." (App. B, pp. 41-42).

Lear has no application to facts such as these. It did not deal with written covenants perpetually prohibiting challenge to patent validity, but with estoppels to such challenge implied by law from the licensor-licensee relationship. Further, *Lear* was not concerned with restrictive covenants which were included, not only in patent licenses,

but also in requirements purchase agreements and jobber sales contracts involving no grant of patent rights. And *Lear* did not involve a group of competitors subscribing to such a restrictive covenant, thereby manifesting the intent of each and of the group to refrain from attacking the validity of patents under which they could operate to their mutual advantage and to the exclusion of competitors outside the group.

Long prior to *Lear*, this Court held that contracts prohibiting challenge to patent validity are outside the scope of the grant of the patent statutes and have a basis only in contract law. In *Pope Manufacturing Co.* v. *Gormully*, 144 U.S. 224, this Court held that a contract containing such restrictive covenants was subject to the reach of the laws prohibiting agreements which are in restraint of trade or otherwise void as against public policy. Petitioners' claim is that agreements here are subject to the reach of the antitrust laws quite apart from the decision in *Lear*. Those agreements were void under the law prior to *Lear* and *Lear* certainly does not retroactively validate them as Respondents' tortuous reasoning attempts to establish.

Respondents argue that in *Pope* the covenant prevented challenge only to unlicensed patents, and labels this a "crucial distinction" from the case at bar (Resp. Br., p. 9). To the contrary, in this respect the case at bar is on all fours with *Pope*. Here there was no grant of patent rights in the agreements with requirements purchasers and a mere jobber, which agreements nevertheless included the restrictive covenants. Further, the basis of the holding in *Pope* was that the limited monopoly of the patent grant did not include the right to immunize patents from validity challenge by restrictive agreements.

Respondents attempt to justify the agreement precluding challenge to Besley's patents—euphemistically called "estoppel clauses"—on a number of grounds. It is argued that "there is no indication that these licensee estoppel clauses had any actual impact on any licensee" (Resp. Br., p. 5). At best, the observation is irrelevant. The impact on the public of patents maintained valid and assertable by agreement of a dominant group of competitors not to attack their validity is what matters, not the impact on the agreeing competitors. And, if impact on a licensee is an issue, consider the competitor who honored the agreement despite the invalidating evidence in its files and the opinion of its patent counsel that the licensed patents were invalid.

Respondents also argue (Resp. Br., p. 5):

> "Prior to entering into a license agreement, each licensee had been free to contest patent validity. There is no evidence that, after entering into a license agreement, any licensee ever attempted to contest Besley's patents."

This establishes the evil of which Petitioners complain rather than being a justification. Those competitors previously free and best able to contest the validity of Besley's patents agreed with Respondent to remain silent and accepted membership in "our group" which stood to benefit from the limited competition insured by the patents—for so long as the statutory presumption of validity could be maintained against outsiders such as Petitioner.

It is also urged that the agreements did not prevent Petitioner from selling to manufacturers and distributors of taps (Resp. Br., p. 6). This is so, Respondents argue, because Petitioner obtained patents on an improved type

of swaging tap, and "What better proof can there be that Belsey's patents did not cover all swaging taps?" (Resp. Br., p. 6).

This rhetoric could be viewed as naive if the taps charged to infringe Besley's patents had not been the improved taps of Petitioner's patents. Further, "better proof" would have been a holding that such taps did not infringe Besley's patents. However, the District Court held and the Court of Appeals agreed that the improved taps would infringe if the patents were valid. And the purpose for the restrictive covenants with the selected competitors was to avoid having the validity of those patents placed in issue.

Respondents also profess to have freely licensed others" (Resp. Br., p. 3). If by "others" is meant the selected competitors, the statement has basis. But it has no application to those outside the select group such as Petitioner. Respondent's right to license was used to attempt to exclude Petitioner's competition.

Not that Petitioner Balax was not offered a license. That license required that Balax not offer the same tap as was being offered by Respondent and its licensees, and that Balax agree to charge higher prices for its tap than the price charged by Respondent and its licensees for their tap.

Respondent so much as told its licensees, whose permission was required for the offer, that the intent was to eliminate competition from Balax. The license offered, Respondent explained, "was a unique license" which Respondent "did not regard . . . as a device for putting new competition into business on" the taps of Respondent and its licensees (A. 310). Further, the select group was told that Petitioner, "a small shop near Milwaukee", was not

among the "competitors we know and respect", to be included in "our group" (App. II, pp. 502-4).

And when this competition limiting license offer was rejected, Respondent was ready. Then Respondent's view was that the Balax tap "poses more of a competitive threat in the market" and for this reason Petitioner Balax was sued for patent infringement (App. B., p. 45).

Especially, in view of the confessed intent to limit, if not outright eliminate, Petitioner as a competitor by the license route, there is little substance to the profession that the license offer to Petitioner was made in "good faith" (Resp. Br., p. 4).

B. The Error of the Court of Appeals On Market Dominance is Unanswered.

The second of the Reasons for Granting The Writ (Pat., pp. 20-23) is the basis on which the Court of Appeals concluded there was insufficient market dominance by Respondent to establish a Section 2 violation. In arriving at that conclusion, the Court of Appeals improperly compared current net sales with an estimated future potential gross market which is three times larger than the actual market.

Evidently unable to support such holding, Respondent directs its argument to the scope of the relevant *product* market. But even in that argument Respondent is on shaky ground. The District Court, as noted in the Petition (p. 22), held the relevant product market to be swaging taps (App. B., p. 47; App. A., p. 21). Although critical of the trial court's findings on that issue, the Court of Appeals did not reverse on that basis.

Respondents argue (Br., p. 13):

> "The Census Bureau recognized only one product line in this area, encompassing both swaging and cutting

> taps. According to records maintained by the Census Bureau (PX 179, App. Ex. p. 204) and the Metal Cutting Tool Institute (PX 178, App. Ex. p. 201M), swaging and cutting taps account for about $60,000,000 in annual sales: In the Seventh Circuit, Balax agreed that the overall tap market was $60,000,000. (Balax Seventh Circuit Brief, pp. 9-10, 43)."

Respondents tried, but failed, to adduce evidence to support the first two sentences quoted above. Both the Census Report and the reports of the MCTI made of record expressly relate to "cutting tools", and the witness who identified these documents and testified to them on behalf of Respondent, Mr. Heldenbrand, testified that a swaging tap is *not* a "cutting tool". (A-574).

The Census Report maintains a clear distinction between "*** 'cutting tools' or the actual cutting elements that directly remove material in the form of chips, ***" and "some closely related tools" (Ex. Vol. I, p. 248). As to the latter, the Census Report states: "All of these items are separately identified and individually reported in the detailed shipment (table 5)". (Ibid). Nowhere in the Census Report or in the MCTI report is there any mention of swaging taps. Mr. Heldenbrand testified that he had no knowledge or information regarding the "records maintained by the Census Bureau" or the MCTI, other than the practices followed by Respondent in reporting to those two agencies. (A-574). Mr. Heldenbrand testified that Respondent reports swaging taps along with cutting taps, and to substantiate his testimony produced the 1967 Census Report by Respondent's Threadwell facility, which does not make swaging taps (A-576), but which purchased for resale under a requirements contract with the Besly-Welles facility of Respondent. (Ex. V, Vol. I, p. 119). However,

Mr. Heldenbrand admitted that Threadwell reported *no* swaging taps (A-576), even though such a report would be required (Ex. A. Vol. I, p. 227) for swaging taps purchased for resale.

Moreover, Petitioners at no time, in the Seventh Circuit or in the District Court, agreed as Respondents assert, that the "overall tap market was $60,000,000." The truth is that Petitioners stated that annual domestic "*cutting* tap" sales only are approximately $60,000,000.

Respondents further assert (Br., p. 15): "Thus, Balax contended that the relevant market was $6,000,000", and charges that in the Petition, "Balax has totally reversed its field." Neither of those statements is accurate. Petitioners have always specified that the $6,000,000 figure represented the estimated potential future market for swaging taps if and when the swaging tap market is fully exploited. The Court of Appeals was careful to so describe that dollar amount. (App. A. p. 22). Petitioners have consistently contended throughout this entire litigation that wherever swaging taps have replaced cutting taps, cutting taps have been unable to compete with swaging taps. When the testimony referred to by Respondents on page 13 of their Brief is read in context, it establishes that cutting taps present no competition for sale to swaging tap users.

C. Respondents Raise New Issues Attempting To Avoid Liability.

The third of the "REASONS FOR GRANTING THE WRIT" (Pet., pp. 23-30), is the error of the Court of Appeals holding that Petitioners failed to adduce sufficient evidence of injury to sustain a cause of action under Section 4 of the Clayton Act. Respondents are silent on that issue, apparently agreeing that the Court of Appeals disobeyed this Court's instructions in *Zenith Radio Corp* v.

Hazeltine Research, Inc., et al., 395 U.S. 100 (1969). Instead, Respondents raise two new issues in avoidance of a liability, namely: (1) was initiation of this action by Respondent Besley part of a combination in restraint of trade under Section 1 of the Sherman Act, and (2) did any other antitrust violations by Respondent cause the injury proved?

The first issue is implicitly answered above in discussion of the *Lear* issue, and in related portions of the Petition. Response to the second issue is stated here.

Respondents rely (Br., p. 18) upon the 1968 testimony of Petitioner Balax's sales manager to the effect that distributors' preference for handling both swaging taps and cutting taps limited Petitioner's ability to obtain distributors for its only product, swaging taps. However, the important testimony extracted by Respondent from its own witness in 1970 is neglected.

Petitioner Balax learned for the first time in the November, 1970 hearing on reconsideration, from Respondent's only witness on these antitrust issues, that Respondent Besley and the other major competitors will deal only with exclusive distributors who agree to handle only one manufacturer's product line. (A-567). Thus, Respondents revealed that the resistance Petitioner had interpreted as merely distributor preference was in reality the result of manufacturers' coercion, extending to the entire product line—those numerous other products in the tap catalogues, such as dies, screw plates, tap wrenches, screw extractors, burring reamers, taper reamers, pipe reamers, center taps, tap drivers, chucks, holders, sleeves, collapsible taps, adjustable taps and gages (Ex. A Vol. II, pp. 342, 646) and, in Threadwell's Census Return, broaches, twist drills, counterbores, milling cutters, slitting saws and other cutting tools and accessories (Ex. A., Vol. I, pp. 222-4).

The fact of this prevailing practice in the industry made it vital to Petitioner's business that it have competitive access to the larger cutting tool manufacturers who did not produce swaging taps. Such access was shut off by Besley's requirements agreements containing perpetual covenants never to challenge patents and the combination to exclude new competition.

Petitioner Balax was also unable to obtain necessary fluted blanks from which to make cutting taps at a price that would allow Balax to compete. Contrary to Respondents' assertion (Br., p. 18), that supply problem was indeed connected with Respondent Besley, for it was one of the three manufacturers from whom Petitioner tried to get fluted blanks. In 1961 the quoted prices to Petitioner were only 10% less than 1966 prices for completed taps in some quatities and were actually higher than 1966 prices for completed taps in other quantities. (Compare Ex. A. Vol. I, p. 155 with Ex. A. Vol. II, p. 422 less distributor's discount Ibid. p. 491). The only sources of fluted tap blanks are major cutting tap manufacturers having the sales and resources to acquire and support automatic flute grinding machines (A-656); consequently, Respondent Besley and its selected licensees held the key to entry of competition into the cutting tap market.

Respondents state (Br., p. 19) that "There is no evidence at all in the record that Besley [Bendix] had any influence over the price of swaging taps." The record establishes that Besley and its licensees sold swaging taps at identical consumer list prices (A-536, 568). Those prices are published (A-568). However, manufacturers, including Besley, sell swaging tap to their exclusive distributors at the published list price *less* a distributor's discount (A-595). The discount is restricted information (A-596). Hence the public and, presumably, competitors would

not know the price charged by Besley and competing manufacturers to their respective distributors.

Petitioner Balax did not know the confidential distributor discounts given by Respondent Besley (A-673). However, Respondent's licensees had that information since Respondent sent its confidential discount sheets to its licensees (A-597-598, 600). As might be expected, the confidential prices of the three competitors, Respondent, Threadwell and United Greenfield, whose price lists and discount sheets are of record, were identical. (Ex. A. II, pp. 315-495). And these prices, which placed a floor under negotiated consumer prices, could not have coincided by normal market operation, but required collusion. Add to that the attempts of Respondent Besley to induce Detroit Tap & Tool (Ex. A. Vol. II, p. 273) and Petitioner (Ex. A. Vol. I, p. 181) to enter into price fixing agreements, and the presence of evidence establishing Respondent's improper influence on pricing cannot be denied.

Respondents' statement that "Balax has never challenged the ruling on the first appeal that Besley lawfully obtained and enforced its patents" (Br. pp. 16-17) is grossly misleading. In the first place, there was no ruling that Respondent "lawfully obtained" its patents. Of the three patents in suit, one was stipulated to be invalid because of the patentee's own prior public use and another was held invalid for the same reason: this notwithstanding the oaths to both applications that there was no prior public use.

The third patent was ruled invalid because the claimed invention was completely disclosed in a 1938 German patent. Respondents allude (Br., p. 17) to the holding by the Court of Appeals invalidating its third patent "upon an obscure German petty patent." As early as May 26, 1959, long before this action, one of Respondent's contract

purchasers, informed Respondent Besley, that the same "obscure German petty patent" invalidated the third patent. And Respondent knew of that fact before it acquired Besley. The fact that one of the three patents temporarily survived court action hardly warrants accolades of good behavior for Respondents.

At least four times in its brief Respondents mention "20,000 distributors" supposedly available to purchase swaging taps from Petitioner Balax. The figure "20,000" occurs only once in the record and is alluded to only once again in the record by Respondents' counsel. Both references are in the November, 1970 testimony of Respondent's only antitrust witness who testified that that many industrial distributors were potential customers for Respondent's cutting and swaging taps.

But the number of potential customers that were available to the huge multi-national conglomerate Respondent is neither relevant to this case nor an indication of how many customers were available to the much smaller and less extensive Petitioner Balax. Cross examination of Balax's sales manager disclosed that 35 distributors had been acquired by Petitioner—after a decade of effort.

Petitioners submit that Respondents have failed to diminish in any respect the compelling reasons for the granting of the Petition For the Writ of Certiorari.

Respectfully submitted,

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